Leading Ahead

annual report 2010

Stock Code: 493

To sail forth with great ambition

We are confident that we will continue to lead the home appliance retail industry in China, and we will do our utmost to help improve the quality of people's lives.

Contents

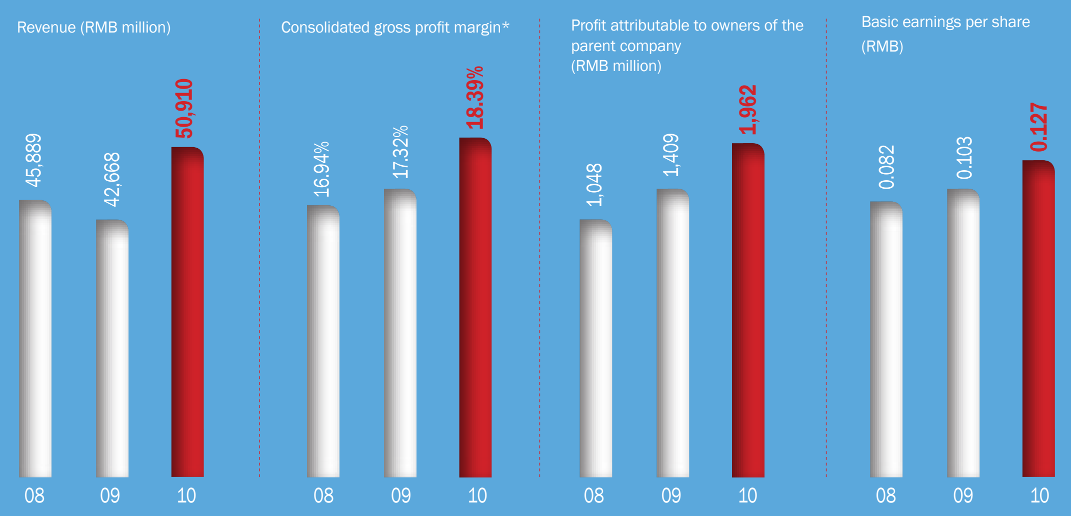
2	GOME at a Glance
3	Five Year Financial Summary
4	Financial and Operational Highlights
8	Chairman's Statement
12	Management Discussion and Analysis
42	Highlights of the Year
46	Directors and Senior Management Profile
55	Report of the Directors
70	Risk Factors
72	Corporate Governance Report
85	Independent Auditors' Report
87	Consolidated Income Statement
88	Consolidated Statement of Comprehensive Income
89	Consolidated Statement of Financial Position
91	Consolidated Statement of Changes in Equity
93	Consolidated Statement of Cash Flows
95	Statement of Financial Position
96	Notes to Financial Statements
196	Corporate Information

GOME at a Glance

GOME is a leading chain-store retailer of home appliances and consumer electronic products in China. We provide the industry's leading consumer experience, embracing the most extensive range of products, delivered at the most competitive prices. We offer our suppliers a channel platform that creates optimum economies and efficiencies of scale.

HIGHLIGHT

- Revenue for the year amounted to RMB50,910 million, representing a year-on-year increase of 19.32%
- Consolidated gross profit margin rose from 17.32% to 18.39%
- Profit attributable to owners of the parent company increased from RMB1,409 million to RMB1,962 million, representing a year-on-year increase of 39.25%
- Basic earnings per share were RMB0.127, up 23.30% from RMB0.103 last year.
- The Board has resolved to declare payment of a final dividend of HK$4.1 cents (equivalent to RMB3.5 fen) per share
- Revenue from comparable stores increased by 21.80% as compared to 2009
- Sales revenue per square metre rose by 22.64% as compared to 2009

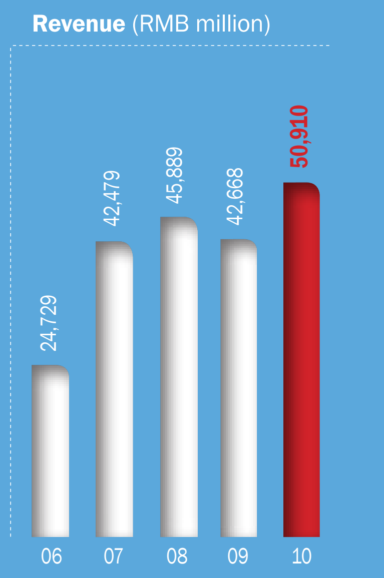


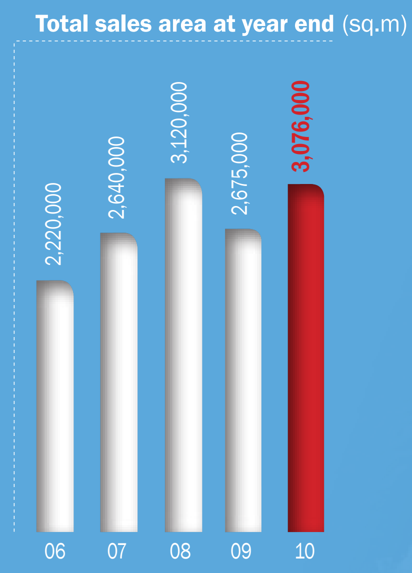
* Consolidated gross profit margin = (gross profit + other income and gains)/revenue

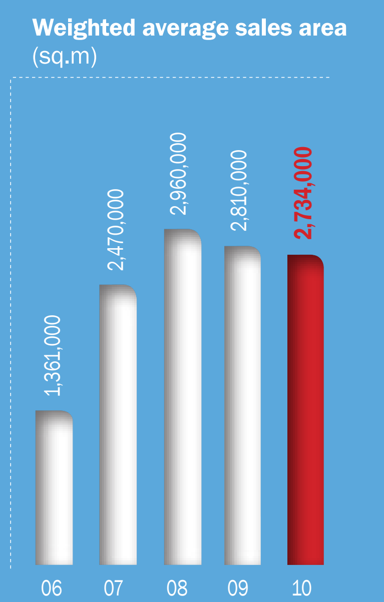
Five Year Financial Summary

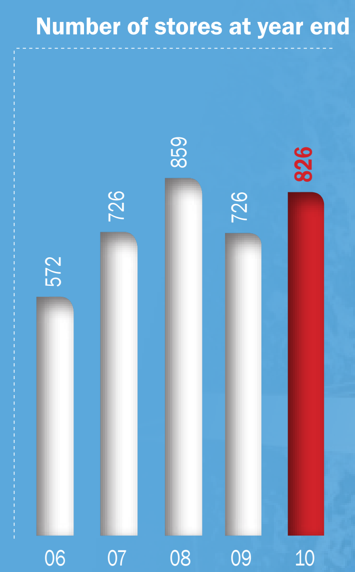
	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**50,910,145**	42,667,572	45,889,257	42,478,523	24,729,192
Profit attributable to owners of the parent	**1,961,654**	1,409,288	1,048,160	1,127,307	819,167
Total assets	**36,209,913**	35,763,180	27,495,104	29,837,493	21,176,229
Total liabilities	**21,474,726**	23,960,715	18,795,069	19,444,825	15,935,840
Non-controlling interest	**–**	–	140,201	89,689	88,783
Net assets	**14,735,187**	11,802,465	8,700,035	10,392,668	5,240,389

Financial and Operational Highlights

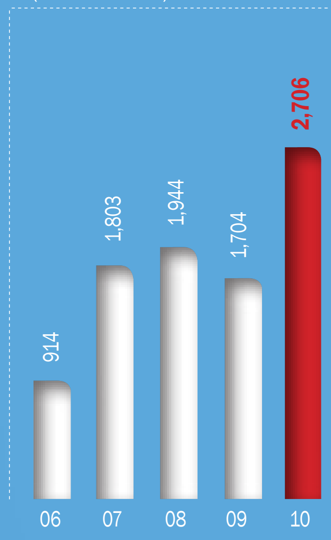




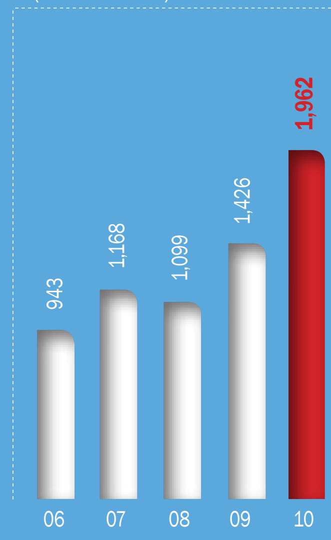




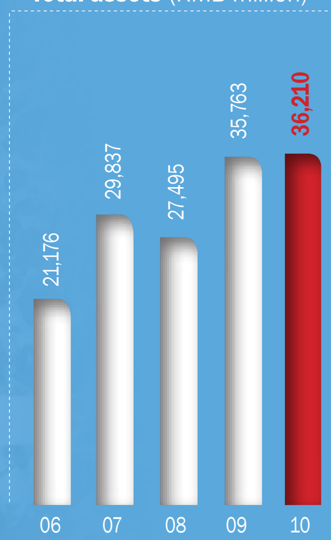
Profit from operating activities
(RMB million)



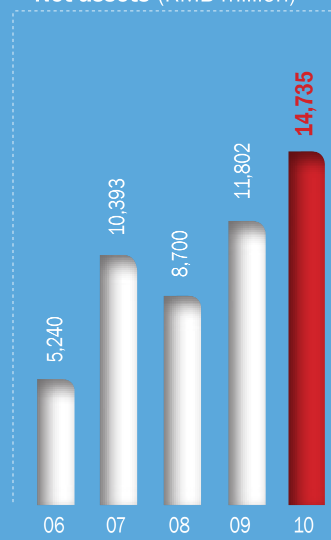
Profit for the year
(RMB million)



Total assets (RMB million)



Net assets (RMB million)




CHINA
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Dhaka

To accelerate network expansion with focused determination

> Compasses and the theory of magnetic declination are both fundamental for making sea voyages possible, enabling people to sail across the vast expanses of the oceans around the clock. Owing to this, many new sailing courses are created with the lengths of voyage shortened. In much the same way, GOME demonstrates its resolution in carrying out its five-year plan, to promote the long-term interests and wealth of all stakeholders in our corporation.

Chairman's Statement

Dear Shareholders,

I am glad to be joining GOME Electrical Appliances Holding Limited (the "Company") together with its subsidiaries (collectively known as the "Group" or "GOME"). The Group has been back on track of sustainable growth after it has surmounted one of the most difficult periods to date for the past two years since its listing. 2010 is the first year of formulating GOME's five-year plan. The Group resolved its internal problems amidst heightened media and public attention. Although the process was not easy, GOME adjusted the board structure. The new board structure enables shareholders, the board of directors and senior management to reach agreement upon the company's revised strategies, which is crucial for the Group's future sustainable growth and survival in competitions.

In 2010, the Group was concentrating efforts on effective implementation of store management initiatives to optimize our store network and increase operating efficiency of individual store. All these would not be possible without a stable and focused management. We are keen to further strengthen our management team to accomplish the strategic direction of the Group. As a newcomer, I am proud to be working with such a well-established and loyal management team.

2011 is the first year of China's 12th Five-Year Plan, intended to reorient the entire economy from an outward export focus to domestic development and the empowerment of Chinese consumers. The mainland consumer electrical appliances retail market is enormous, with even the leading players like GOME only commanding some 10%. We are keen to capitalize on the untapped opportunities ahead.

Looking ahead, we will continue to execute the five year strategic blueprint laid out by the Board to further strengthen our market leadership. The Group through precision management will enhance the operational quality and efficiency and will focus on a host of initiatives including: rapid and focused expansion of our store network, improving supply chain management, setting up national and regional logistics centers, refining the stores nationwide, expanding the range of product offerings, raising profit margins by introducing high-end differentiated products, improving consumer's experiences and relations with banks and suppliers, and striving to enhance its business model. We will accelerate the store expansion plan with enhanced operating margins. The net results will enhance our core competency and benefit all shareholders in the long run.

Lastly, I would like to express my respects and appreciation for all GOME employees for their consistent efforts. I would also like to thank for everyone outside of GOME for their supports on the Group's development. In the future, we will strive for the benefits of the shareholders, the employees, and the customers. We will focus on the long-term sustainable growth of the Group, making GOME one of the best companies in the world. I myself is very confident to take GOME to many new heights.

Zhang Da Zhong
Chairman of the Board

To ride on the wind of fortune and consolidate growth

> Setting its sails at the right angle, a yacht can either run before the wind, blown by the force on its sails, or beat to windward, tacking into the wind. In the same way, GOME, by adjusting its helm to adapt to new business environment and changing in the five-years plan based on the changes of the market, has held its leading position in the ever-changing sea: the rapidly-developing market.

Management Discussion and Analysis

As it pursues its goal of building a first-class home appliances retail enterprise in China, the Group has set out strategic guidelines for "leading ahead in 2011 through maximum effort and minimal waste".

Overview

In 2010, the Group continued to implement the five-year plan adopted by the Board, resulting in outstanding performance. In line with our store management refinement push, the Group continued to close underperforming stores, open new outlets in regions supported by its optimized logistics networks, and improve store sales over the reporting period, with satisfactory results. As at the end of the reporting period, the Group's total number of stores rose to 826 from 726 in the previous year, following the closure of 39 underperforming stores and the opening of 139 new stores. Following the remodeling of our stores, the operational efficiency of individual premises improved significantly, as demonstrated by the 21.80% growth in comparable store sales.

The Group recorded revenue of approximately RMB50,910 million over the reporting period, up 19.32% from approximately RMB42,668 million the previous year. Profit attributable to owners of the parent rose 39.25% to approximately RMB1,962 million from approximately RMB1,409 million over the corresponding period of the previous year.

On 18 May 2010, the Company redeemed part of the zero-coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") with an aggregate principal amount of RMB2,625,900,000, pursuant to the terms of these bonds. As at 31 December 2010, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding. On 22 September 2010, the Company received a conversion notice from Bain Capital Glory Limited to convert the 5% convertible bonds due in 2016 (the "2016 Convertible Bonds") in full, into 1,630,702,330 conversion shares at the conversion price of HK$1.108 per share. The redemption and conversion effectively reduced the Group's overall liabilities, improving its debt to total equity ratio.

During the reporting period, the Company's management consistently implemented a five-year blueprint formulated by the Group and designed to maximize long-term value for the benefit of all shareholders. The core elements of this five-year plan are as follows. First, expansion of the store network, with supply chain management enhancement, establishment of new regional logistics centers, and development of new model stores. Second, operating efficiency improvement, including wider product choice, refined supplier arrangements, and introduction of differentiated products with high profit margins. Third, ongoing improvement of relations with both suppliers and customers. And finally, development of new business lines.

As a leading home appliance retailer in China, the Company has always been an industry pioneer. The Company moved quickly to maintain its leadership position in response to rapid market changes with a series of initiatives. First, it intensified its focus on multi-channel and multi-platform business development, with strong results in e-commerce and expansion into second-tier markets. Second, it reinforced core retail operations by planning and securing hardware for a nationwide ERP system, with software development and system testing in progress. Third, it enhanced store operating efficiency by transforming existing stores in first-tier markets and upgrading 185 stores in second-tier markets (the "185 Project"). Fourth, it continued to develop an ODM/OEM supplier system, to realize profit differentiation and consequently boost the overall profits of the Group.

The Group has always striven to provide prompt and professional service to customers. All of our business activities are focused on meeting consumer demand, and we put great emphasis on the shopping experience, to win our customers' recognition and loyalty. GOME seeks in this way to establish a top-quality, dynamic brand image.

Business development and market potential

China's overall domestic economic environment was encouraging during 2010. According to published data from the National Bureau of Statistics, China's GDP grew 10.30% over the reporting period, and consumer spending on retail goods reached approximately RMB15,460 billion.

The Group's existing 210 stores have been made over into "new-model stores", with a modern and individual image, and customer-friendly environment, for consumers' enjoyment. Concurrently, the Group opened 16 super flagship stores, the "Xin Huo Guan" outlets, in major cities, in a pilot program. These stores offer diversified products and the latest international high-end home appliances, further expanding the Group's customer base, and improving its brand image and profitability.

Comparable store sales had a growth of

21.8% this year

During 2010, the Chinese government maintained the proactive fiscal policy and moderate monetary policy implemented in 2009. It moved to further stimulate domestic demand, especially consumer demand. Financial stimulus plans, including "go rural", "exchange old for new" (for home appliances), and "energy-saving subsidies", significantly boosted domestic consumer demand and spending. In addition, the new welfare housing policy adopted by the government will strongly support the sales growth of home appliance retail industry.

Management believes that, given the favorable economic stimulus policies and rapidly growing consumer electrical goods market in China, the Group can achieve rapid and stable growth, capitalizing on the strength of its competitive brands and its unparalleled sales and service network, as well as its innovative and sustainable business model.

Analysis of operating advantages

The most valuable brand

At the end of 2010, the GOME brand was recognized as "the most valuable brand" in China's retail sector for the fourth year running in R & F Global Ranking's survey of "The Most Valuable Chinese Brands", with its brand value reaching RMB52.6 billion. GOME was also the only home appliances retailer in this ranking. In June 2010, GOME was awarded the China Top Brands Contributors Award by the China Media Culture Promotion Association and General Assembly on China Brands and Communications. It was also named as one of the Top 50 China Brands 2010 in the survey released by Forbes and Interbrand in Beijing in recognition, of its robust growth and brand influence, reflecting the value of the GOME brand to both consumers and the retail sector.

Throughout the Group's history, we have always been committed to providing innovative services to best meet consumer needs. With a comprehensive service value system in place that emphasizes high efficiency and superior standards, we can now satisfy all our customers' many requirements. As a "World Expo Shanghai 2010" authorized retailer of electrical appliances, the Group recorded RMB7 billion sales and was given a Gold Award for the Best Authorized Retailer by the Organization Committee of the Expo 2010 Shanghai China and Coordination Bureau of Shanghai World Expo of Shanghai Municipal People's Government. Meeting the high standards of the World Expo, the Group fulfilled customer needs, promoted upstream technical and product innovation, and increased the value of the entire industry chain to upgrade the sector from "made in China" to "created in China".

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Efficient store network

During the reporting period, the Group continued to transform its stores and further optimize its existing network across the country. It closed down underperforming and loss-making premises, and rented out the overlapping stores. In 2010, the Group closed down 39 stores. It strategically opened more outlets in highly-competitive locations, mature niche markets, urban cores with comprehensive store networks and second-tier markets. In 2010, it opened 139 new stores. On the other hand, with customers steadily putting more emphasis on the quality of their shopping experience, as well as lifestyle leisure and entertainment, the Group studied leading international home appliance retail chains, and remodeled stores in first-tier markets. As at the end of the reporting period, it had remodeled a total of 210 existing stores into "new-model stores" featuring a modern and personalized image and customer-friendly environment for consumers' enjoyment. Concurrently, the Group opened 16 super flagship stores (the "Xin Huo Guan" outlets), in major cities as part of a pilot program targeting medium- to high-end customers. These stores offer diversified products and the latest international high-end home appliances, attracting young audience and customers with high spending power, which further expands the Group's customer base and meets developing market needs, improving the Group's brand image and profitability.

As at the end of 2010, the Group had 826 outlets in 208 large- and medium-sized cities across the country. Among them, 522 stores were located in first-tier markets with strong consumer spending power.

In addition, as at the end of 2010, including 435 outlets of the Non-listed GOME Group (excluding stores in Hong Kong and Macau) and 59 outlets under the Dazhong Appliances brand, the Group's total number of stores reached 1,320 and spanned 336 large- and medium-sized cities.

As at the end of the reporting period, total sales area of the 826 stores was approximately 3,076,000 sq.m.. The average sales area per store was approximately 3,725 sq.m., up by 1.09% compared to 3,685 sq.m. in 2009.

The management believes that the home appliances retail sector in China will be more emphasising on the efficiency of individual stores, prioritizing customer experience, convenience, diversified products, and personalized services. In response to such changes, the Group will remodel existing stores in first-tier markets into new-model stores and open Xin Huo Guan stores in core commercial areas to offer a more pleasurable shopping experience and satisfy customers' individual needs. It will also improve the environment of stores and store networks in second-tier markets to benefit customers.

Acceleration of second-tier market expansion

With the PRC's rapid urbanization, there has been a gradual shift of industries from developed to developing cities. Growth in the real estate market and the increasingly disposable income of rural residents in China are driving up the penetration rate of electrical appliances and electronic products in second-tier markets, creating enormous business opportunities.

By the end of the reporting period, the Group had established itself in 182 second-tier cities with 304 stores, representing 36.80% of the total number of stores. Also, under the "185 Project", 73 stores had been remodeled. The Company refined the management of existing stores and optimized the store network, resulting in an improvement of the Group's results. By further enhancing its logistics systems and information platform, the Group has laid a solid foundation for the further expansion of its store network.

With the inclusion of the 435 outlets of the Non-listed GOME Group and 59 outlets under Dazhong Appliances, the Group's total number of stores reached 1,320 and spanned across 336 large- and medium-sized cities.

The Nationwide Retail Network of the Group

As at 31 December 2010

Development of Network

	Group total	GOME	China Paradise	CellStar
Flagship stores	102	85	17	0
Standard stores	700	590	110	0
Specialized stores	24	3	1	20
Total	826	678	128	20
Among them:				
First-tier markets	522	404	100	18
Second-tier markets	304	274	28	2
Net increase in store number	100	97	3	0
Number of stores opened	139	122	16	1
Among them:				
First-tier markets	85	73	11	1
Second-tier markets	54	49	5	0
Number of cities accessed	208	178	52	6
Among them:				
First-tier cities	26	20	9	1
Second-tier cities	182	158	43	5

List of stores

Region	Flagship stores	Standard stores	Specialized stores	Total
Beijing	10	45	0	55
Shanghai	10	49	1	60
Tianjin	11	24	0	35
Chengdu	6	45	0	51
Chongqing	6	31	0	37
Xi'an	4	28	20	52
Shenyang	5	24	0	29
Qingdao	4	24	0	28
Jinan	3	18	0	21
Shenzhen	3	70	0	73
Guangzhou	4	103	2	109
Wuhan	5	25	1	31
Kunming	3	17	0	20
Fuzhou	4	29	0	33
Xiamen	1	29	0	30
Hangzhou	0	8	0	8
Henan	3	28	0	31
Nanjing	2	32	0	34
Wuxi	2	4	0	6
Changzhou	2	8	0	10
Suzhou	4	12	0	16
Hefei	2	9	0	11
Xuzhou	1	9	0	10
Tangshan	0	11	0	11
Lanzhou	5	9	0	14
Wenzhou	2	9	0	11
Total	102	700	24	826

The management believes that first-tier markets are fundamental basis, but second-tier markets will be the focus of future growth. The Group will take advantage of its regional brands and leverage the lower rental, advertising and salary costs, and less intense competition in second-tier markets, as well as existing presence and buildout in these areas, to further enhance its store and logistics network and operating platform, and will adopt flexible sales strategies to maintain its leading position in the second-tier markets.

Strengthening e-commerce

According to a report released by iResearch Consulting Group, the value of online shopping in China reached nearly RMB500 billion in 2010, accounting for 3.2% of total consumer spending on retail goods. The number of online shoppers in China has reached 148 million, with a penetration rate of 30.8% among internet users. Meanwhile, competition in the online shopping market has shifted from C2C to B2C, with emphasis on the e-commerce industry turning to scale, branding, and platform development. As a developing sector, the e-commerce market is full of opportunities. The Group will capitalize on current trend and take the lead to develop the B2C model for home appliances retailing.

The Group launched a brand new e-commerce platform and online marketing program, marking our entry into the e-commerce market. The Group invested Kuba Technology (Beijing) Co., Ltd ("Kuba") and its website (www.C008.com), the leading online shopping network in China, as well as building its own network. By utilizing the well-constructed online platform and online shopping marketing resources of Kuba website, which covers all the major cities and regions across the country, while integrating our resources, including our existing suppliers, logistics system and delivery services, after-sales service, membership management, and information technologies, the Group has further expanded its penetration in the B2C online shopping space, using the new e-commerce platform, and has become the leading brand in home appliances in the 3C online shopping field in China. Service value for consumers was enhanced by the new e-commerce model.

Stable rental of stores

As at the end of the reporting period, 792 stores are currently under lease agreements and 34 stores are properties owned by the Group. Leasing agreements, as a prevailing practice, generally do not require up-front capital investment, and at the same time offer the flexibility for store expansion..

During the reporting period, the Group's store lease payments were approximately 3.90% of total sales revenue, down 0.77% from 4.67% in the corresponding period in 2009. The Group has leased a total of 792 stores, and the number of stores with leasing agreements expiring in 2011, 2012 and 2013 was 51, 60 and 96 respectively.

Accounting for 6.96% of the Group's total floor area, the combined area of the 34 self-owned properties reached approximately 214,000 sq.m., with these located mostly on the high streets of major municipalities like Beijing and Shanghai.

Good relationships with suppliers

In 2010, the Group endeavored to refine its supply chain system with its suppliers, moving gradually from its original production-sales model to a new one, under which the Group would inform the suppliers about consumer demand and they would produce the required products on demand. This model helps bridge the demand and supply between suppliers and customers. Through the Group's logistics, financial and service systems, seamless integration of information sharing between suppliers and customers has been achieved. Such a virtuous cycle among suppliers, retailers and consumers will create an all-win situation. The Group will work with suppliers on this new business model, and continue to make necessary enhancements.

During the reporting period, the Group strengthened its strategic cooperation with its suppliers, with renowned brands such as Haier, Samsung, LG, Sharp, and Meiling becoming its new strategic suppliers. As part of its transformation from the traditional supply and sales relationship, the Group cooperated with suppliers on the whole supply chain in terms of demand anticipation, research and development, production, sales, after-sales and resources sharing to promote the seamless integration of supply and demand chains. In 2010, purchases from the Group's five largest brand name suppliers accounted for 32.34% of total procurement.

Solid cooperation with banks

Since its establishment, the Group has formed long-term, stable and trustworthy relationships with all major domestic banks and some international banks in China. During the reporting period, the Group focused intensively on its cooperation with domestic banks, and overall credit lines returned to near their historically high level. The Group has strengthened negotiations with head offices of banks to enhance cooperation in all business areas, involving substantial credit lines. Meanwhile, the Group is committed to establishing a comprehensive financing model at regional and other levels to provide a favorable financial environment for its development.

Rapid information system development

The Group is shifting its strategy from internal operations to forming alliances. Our retail model is shifting from a "shopping mall model" to a "merchandise management model". The focus of our management is shifting from internal functions to consumer demand. The business management model is shifting from contract management to product management, and we are achieving the integration of sales, finance, and the supply chain. Following the transformation of the Group's management needs and business model, the emphasis of its information system development has also changed. During the reporting period, the Group launched the SAP ERP Leader Navigation Project ("ERP Project"), an upgrade of our IT and business information systems to support change and innovation in the Group's business and facilitate its future strategic development.

The ERP Project is jointly developed by SAP, the world's leading ERP software developer, and Hewlett-Packard, the world's most experienced company in retail management and IT services. SAP ERP (ECC6.0) is an information system designed specifically for the Group to meet our current and future strategic planning needs. Developed using NetWeaver, it is a platform with a uniform structure which can meet the special needs of the Chinese retail industry while being compatible with its standards. It is the highest version available from SAP and the most advanced platform in the industry, equipped with powerful business intelligence functions and automatic procedures such as planning, execution, analysis, and adjustments, enabling the Group to respond to the needs of our customers promptly and accurately. In this way, the Group is able to adjust its strategies flexibly by recognizing and analyzing consumer needs and market changes, thus ensuring accurate decision-making and precise implementation in the course of business. The project will provide the Group with powerful information resources and will make the Group as one of the enterprises with the most advanced information technology in China. Customers and suppliers will all be benefited.

As a leading home appliances and consumer electronic products retailer, the Group has implemented this information system project to facilitate and improve its new business model, marking its commitment of one of China's top retail enterprises to enhance its core competence to international market levels.

Premier customer service and after-sales service systems

(1) Logistics

Logistics is one of the core systems in the home appliance retail industry, and has been a major focus of the Group's development. During the reporting period, the Group continued to improve the logistics centers and warehouses that support its retail network, and established regional logistics centers with a wider geographical coverage in certain important commercial zones. Based on the principle and practice of centralized management, the centers directly integrate logistics information between the Group and suppliers, thereby reducing the logistics overhead of individual suppliers. The centers also optimize the planning and control of various procedures from suppliers to end-users, including information systems, warehousing and order delivery, thus enhancing the quality of management by using logistics information.

As at the end of the reporting period, the Group had a total of 131 delivery centers, including 35 in first-tier markets and 96 in second-tier markets. These delivery centers jointly covered a total area of approximately 625,100 sq.m.

(2) After-sales service system

In 2010, the Group further improved its after-sales service network. The number of "Home Appliance Clinics" was 48, and the number of maintenance outlets established and contracted by the Group reached 2,855. The Group strengthened the standardized management of contracted outlets, and increased its speed of response to customer demand. As the result, customer demand for after-sales service was largely satisfied.

Through various customer service projects such as membership systems, home appliance clinics, extended warranty service and call centers, as well as an established and improved after-sales service system, the Group provided all-rounded before-sales, in-sales and after-sales services. As such, the Group has greatly enhanced its brand image and customer satisfaction, and fostered and increased customer loyalty.

(3) Membership systems

During the reporting period, in order to improve membership services, the Group launched members' corners in outlets, and even provided one-on-one services to senior members. Such improvements have considerably satisfied customers' expectations. In line with the requirements of our strategic development, the Group has enhanced its membership information systems, gained more new members in second-tier markets and optimized the member distribution structure.

In 2010, the Group had approximately 7,370,000 new member registrations and total number of members reached a new high of approximately 33,790,000.

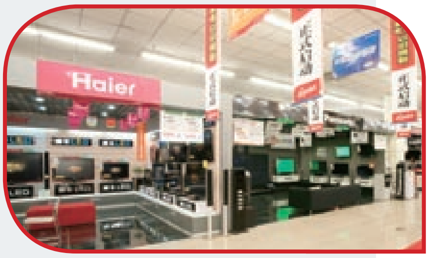
(4) Extended warranty service

In 2010, through cooperation with top international extended warranty service providers, all brands under the Group continued to promote extend warranty services for home appliances to consumers. Through our 24-hour service hotline 800-820-5339, customers can enjoy product maintenance and repair services provided by the Group after the expiry of the manufacturer's warranty period. This service is an extension of the value-added service approach in home appliance retailing, and has helped increase the competitiveness of modern home appliance retailers and relieve the burden on home appliance manufacturers for after-sales services, enabling the manufacturers to focus on improving product quality and creating a more harmonized retailer-supplier chain. This has led to a win-win situation for consumers, manufacturers and retailers, and is a milestone in the service-oriented home appliances retail sector.

As a differentiated service, extended warranty is a highly valuable service product and is widely supported and recognized by customers. The average nationwide merchandise warranty rate was nearly 4.8%. Sales revenue from extended warranty service was approximately RMB151 million, with a gross profit margin as high as 55%. Management believes that there is enormous room for market and profit growth for extended warranty service, given the changing consumption patterns and increasing spending power of the general public.

(5) Call centers

The operation of the Group's nationwide "400-811-3333" single-dial call centers has increasingly matured. After optimization of systems and revision of workflow, the call centers now feature various functions such as voice communication, mailbox, voicemail, online and SMS. In particular, the utilization of mobile message services such as SMS enables customers to enjoy GOME's value-added services anytime and anywhere.



Currently, the call centers have been progressively transformed into customer interactive demand centers. While providing comprehensive telephone services to customers, the Group launched various valued-added service products in 2010, such as SMS services, a World Expo hotline, automatically triggered mail for manufacturers' requests, and VIP "Yi-Jian-Tong" services, with a view to continuously expanding its diversified offerings.

The Group's call centers have been adhering to the principle of "customer-centric service with care", and view "customer satisfaction through competitive services" as their No. 1 goal. By providing customers with efficient and timely services, the Group has not only enhanced its brand image, but also come closer to achieving its long-term strategic goals.

Conscious improvement in corporate governance

The Group has been continuously improving its corporate governance. On 28 June 2010, as approved and accepted by the board of directors after reviewing the effectiveness of the Group's corporate governance structure, Mr. Chen Xiao ("Mr. Chen"), the former Chairman and President of the Company, resigned as President but remained as Chairman and an Executive Director of the Company, and at the same time, Mr. Wang Jun Zhou ("Mr. Wang"), an Executive Director and Executive Vice President of the Company, was appointed President of the Company in his stead, in order to comply with the requirement that the roles of Chairman and Chief Executive Officer be separated under the Corporate Governance Code.

Furthermore, on 17 December 2010, the Company appointed two directors nominated by the major shareholder, Shinning Crown Holdings Inc. On 10 March 2011, the number of executive directors of the Company was decreased by two, and one additional non-executive director and one additional independent non-executive Director were appointed. After such reorganisation, the ratio of non-executive Directors has been increased. The addition of new directors not only ensured constructive discussion and consensus among the directors to determine the future development of the Group, but also further enhanced and improved the corporate governance of the Group.

In-depth corporate culture

The Group understands "corporate culture is the essence of corporate development". In the course of more than two decades of corporate development, the Group has put unremitting effort into building its corporate culture in line with the standards of a leading enterprise in the home appliance retail sector, and striven to succeed in setting a standard and example for the sector in the PRC.

The Group has pursued a mission of "Perfecting the Quality of Life", following the principle of "High Volume, Consumer Excellence, Low Margin, and Services" for 20 years. The Group has built a widely-respected public image by paying great attention to these details. At the same time, the Group has pragmatically implemented the fundamental corporate culture of "Team Cooperation", with the principle put into practice in systems, behavior, substance and image.

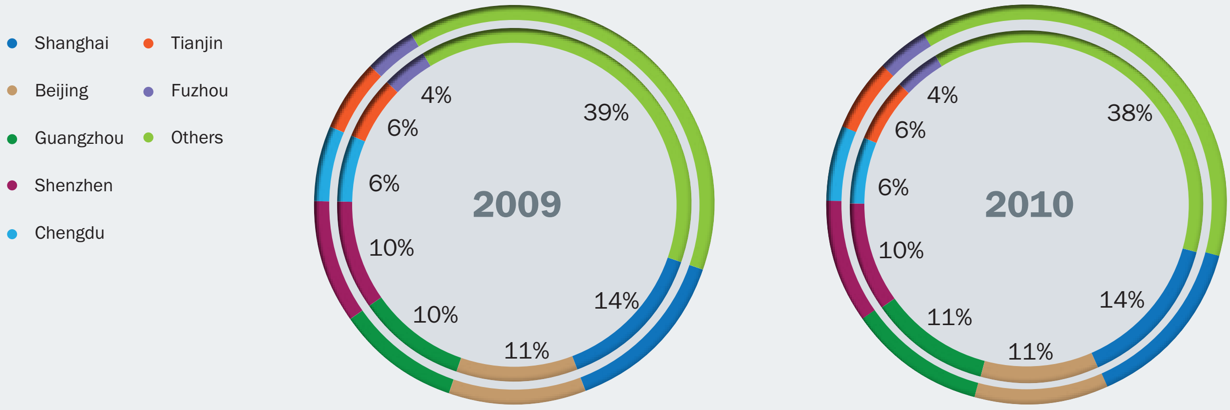
Through both classroom and on-the-job training, we are pleased to see that all our staff have been consistently trained to perform in ways that are aligned with our corporate values and code of conduct. Corporate culture-building covers the entire system and is an ongoing process. To meet the growing expectations from communities and consumers as we develop, the Group is committed to strengthening our corporate culture, with the objective of building a first-class, widely-respected Chinese enterprise.

Talent management

The total number of employees of the Group reached 49,470 by the end of 2010. The Group has attached great importance to human resource management and development to meet the needs of dedicated management amid rapid growth. As at the end of the reporting period, the Group has established an all-level practical training system comprised of SOL, e-learning and action-learning platforms. The number of SOL schools increased from 42 at the beginning of 2010 to 70 at the end of the year. The number of online students in the E-learning schools reached 36,474, with a total number of visits of over 300,000. Action-learning has already organized 14 study groups in the areas of operation and manpower training systems, talent nurturing and senior management team development, thereby providing ample talent for the Group's ongoing growth and making the Group an example in manpower resources development in the home appliances retail sector.

The Group has emphasized the development of talented staff and retained a pool of people with strong retail industry-specific expertise. Since the launch of our "Reservoir" talent nurturing project in 2002, the Group has attracted a total of 7,468 quality university graduates from all disciplines. In 2010, the Group also established 6 "college graduate internship base camps" throughout the nation. These measures have provided recruitment opportunities in the employment market in China, and 80% of those university graduates in turn joined GOME and have added to the core of our business managers, a pool of outstanding individuals ready for the Group's business expansion and management enhancement.

Sales revenue of the Group by region:

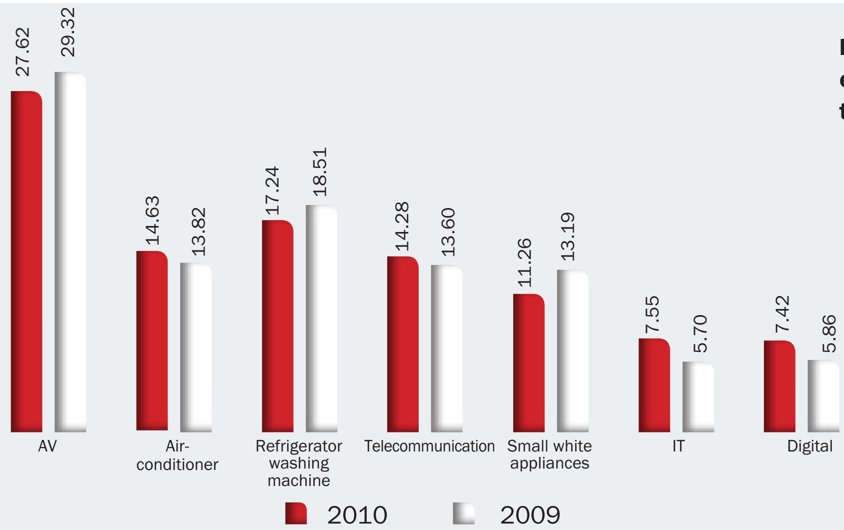


Financial Review

Revenue

During the reporting period, the Group's revenue was approximately RMB50,910 million, up approximately 19.32% from RMB42,668 million in 2009. The Group's weighted average sales area was approximately 2,734,000 sq.m.. The Group's revenue per sq.m. was approximately RMB18,621, up 22.64% as compared to RMB15,184 in the corresponding period of 2009.

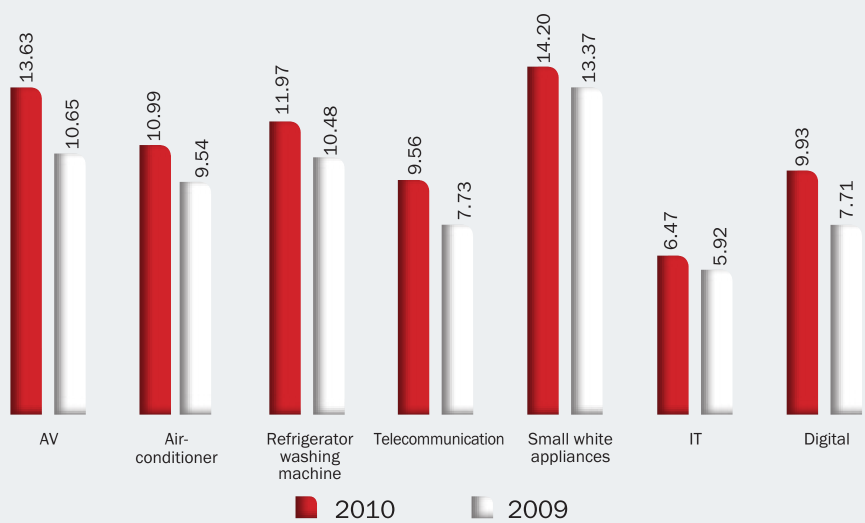
Aggregate sales of 638 comparable stores recorded a revenue of RMB46,850 million in 2010, up 21.80% from RMB38,465 million in the corresponding period of 2009. Revenue mix by region remained largely the same as last year. Sales revenue from the four regions of Shanghai, Beijing, Guangzhou and Shenzhen amounted to RMB23,040 million, accounting for 45.26% of the total revenue.



Proportion of revenue from each product category over total revenue:

Cost of sales and gross profit

Cost of sales of the Group was approximately RMB44,991 million in the reporting period, accounting for 88.37% of the total revenue, lower than the proportion of 90.02% in the corresponding period of 2009. Gross profit was approximately RMB5,919 million, up approximately 38.94% from approximately RMB4,260 million in the previous year. Gross profit margin was 11.63%, up 1.65 percentage points from 9.98% in the previous year. The main reason was that the Company adopted a business strategy of differentiated products and fully cooperated with suppliers, thus enhancing the gross profit margin.



The gross profit margin of each product category is as follows:

Other income and gains

During the reporting period, the Group recorded other income and gains of approximately RMB3,442 million, representing an increase of 9.90% over that of RMB3,132 million in 2009. The percentage of income from suppliers over sales revenue was 4.26%, lower than 5.21% for the previous year, which was mainly due to the standardization of contract terms between the Group and suppliers in the reporting period, which caused more income to be directly reflected in gross profit.

Summary of other income and gains:

	2010	2009
As a percentage of sales revenue:		
Income from suppliers	4.26%	5.21%
Management fees from the Non-listed GOME Group	0.49%	0.55%
Management fees for air-conditioner installation	0.27%	0.23%
Government grants	0.27%	0.22%
Rental income	0.37%	0.30%
Income from extended warranty	0.30%	0.24%
Management fees from Dazhong Appliances	0.20%	0.06%
Others	0.60%	0.53%
Total	6.76%	7.34%

Consolidated gross profit margin

During the reporting period, the Group's consolidated gross profit margin reached 18.39%, representing an increase of 1.07 percentage points as compared to 17.32% for the previous year. The increase in consolidated gross profit margin reflected the advantage of product differentiation, economics of scale and increased operating efficiency.

Operating expenses

During the reporting period, the Group's total operating expenses (including sales and distribution costs, administrative expenses and other expenses) were approximately RMB6,655 million, accounting for 13.07% of total sales revenue, down 0.26 percentage points as compared to the percentage of 13.33% for the previous year.

Summary of operating expenses:

	2010	2009
As a percentage of sales revenue:		
Selling and distribution costs	10.05%	10.20%
Administrative expenses	2.29%	1.98%
Other expenses	0.73%	1.15%
Total	13.07%	13.33%

Selling and distribution costs

During the reporting period, the Group's total selling and distribution costs amounted to RMB5,114 million. The percentage over revenue was 10.05%, down 0.15 percentage points as compared to 10.20% in the corresponding period of 2009.

Summary of selling and distribution costs:

	2010	2009
As a percentage of sales revenue:		
Rental	3.90%	4.67%
Salaries	2.33%	2.38%
Utility charges	0.73%	0.86%
Advertising expenses	1.21%	0.71%
Delivery expenses	0.55%	0.43%
Others	1.33%	1.15%
Total	10.05%	10.20%

Administrative expenses

With the expansion of the Group's operating scale and the need to support its enhanced management, administrative expenses were increased. During the reporting period, the Group's administrative expenses were RMB1,165 million, higher than that of RMB845 million in the corresponding period of 2009 by 37.87%, including the rearrangement of rental expenses and other expenses for year 2009 to the Non-Listed GOME Group, increase in 2010 rental expenses and increase in employee share option expense during the year. However, the administrative expenses were still maintained at a relatively low level in the industry due to strong control over expenses by the Group.

Other expenses

Other expenses of the Group mainly comprised, among others, business tax, bank charges, impairment on revaluation of investment properties and exchange loss. Other expenses were approximately RMB375 million during the reporting period, down 23.47% from RMB490 million in 2009, which was mainly attributable to reduction in fair value loss of investment properties during the year.

Profit from operating activities

During the reporting period, the Group's profit from operating activities was RMB2,706 million, representing an increase of 58.80% as compared to RMB1,704 million in 2009, which was mainly attributable to an increase in the consolidated gross profit margin and keeping the operating expenses at a reasonable level.

Net finance loss

During the reporting period, affected by increase in the interest on convertible bonds, the Group's net finance loss were approximately RMB103 million, higher than approximately RMB8 million in 2009. However, finance interest income remained essentially unchanged as compared with 2009.

Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB2,510 million, accounting for approximately 4.93% of the sales revenue, representing an approximately 36.93% increase as compared with RMB1,833 million in 2009.

Income tax expense

During the reporting period, the Group's income tax expense was approximately RMB548 million, as compared to RMB406 million in 2009. The management considers the tax rate applied to the Group for the reporting period is reasonable.

Net profit and earnings per share

During the reporting period, the Group's profit attributable to owners of the parent company was approximately RMB1,962 million, representing a substantial increase of 39.25% as compared with RMB1,409 million for the previous year. Net profit margin was 3.85%, increased by 0.55 percentage points as compared to 3.30% for the previous year. Basic earnings per share were RMB0.127, representing a growth of 23.30% as compared with RMB0.103 for the previous year.

Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents held by the Group were approximately RMB6,232 million, representing an increase of 3.37% as compared with RMB6,029 million as at the end of 2009.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB8,085 million up 23.78% as compared to RMB6,532 million at the end of 2009. The inventory turnover period slightly increased to 59 days from 57 days in 2009, which was mainly attributable to the increased inventory level at the end of 2010 to prepare for the upcoming New Year and the Lunar New Year holidays. The expansion of second-tier markets and the longer logistics supply chain also contributed to the higher inventory level.

Prepayment, deposits and other receivables

As at the end of the reporting period, prepayment, deposits and other receivables of the Group amounted to approximately RMB2,446 million, up 43.71% from approximately RMB1,702 million as at the end of 2009. The main reason for the increase was that the Group capitalized on the state policy and increased the receivables relating to the implementation of the "exchange old for new program".

Trade and bills payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB16,900 million, up 6.86% from approximately RMB15,815 million as at the end of 2009. Trade and bills payables turnover days were approximately 132 days, decreased by 5 days as compared to 137 days for the previous year.

Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB555 million, representing a 67.17% increase as compared with approximately RMB332 million in 2009. The increase was mainly due to additional expenses arising from opening new stores, the transformation of stores and the purchase of hardware equipment relating to ERP upgrade by the Group during the year, as well as increase in the designated loan for the purpose of capital injection into Kuba.

Cash flows

During the reporting period, the Group's net cash flows from operating activities amounted to approximately RMB3,873 million, compared with net cash flows used of RMB175 million in 2009.

Net cash flows used in investing activities amounted to approximately RMB553 million, representing an increase of 88.10% as compared with RMB294 million in 2009, as the Group increased the capital expenditure for opening new stores, store transformation, ERP Project and capital injection into Kuba during the year.

Net cash flows used in financing activities amounted to approximately RMB3,102 million, mainly used for redemption of Old 2014 Convertible Bonds during the year, as compared to net cash inflows of RMB3,467 million in 2009.

Declaration of dividend and dividend policy

The Board recommended a final dividend of HK$4.1 cents (equivalent to RMB3.5 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2010, amounting to approximately HK$684,280,000 (equivalent to RMB582,275,000).

Currently, the Board anticipates that the dividend payout ratio will be maintained at approximately 30% of the Group's distributable profit of the relevant financial year. However the actual payout ratio in a financial year will be determined at the Board's full discretion, after taking into account, among other considerations, availability of investment and acquisition opportunities.

Contingent liabilities and capital commitment

There were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitments of approximately RMB177 million at the end of the reporting period.

Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. However, as Renminbi has been appreciating against HK dollars and US dollars, the Group's short-term HK dollars and US dollars deposits recorded an exchange loss in the period. The Group has adopted effective measures to reduce such risks. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

The management estimates that less than 10% of the Group's current purchases are imported products, which are sourced indirectly from distributors in the PRC, and the transactions are denominated in Renminbi.

Financial resources and gearing ratio

During the reporting period, the Group's working capital, capital expenditure and cash for investments were funded from cash on hand, cash generated from operations, convertible bonds and bank loans.

As at 31 December 2010, the total borrowings of the Group, being interest-bearing bank borrowings and convertible bonds, amounted to about RMB2,037 million. Of the total borrowings, RMB223 million will be repayable in 2011, RMB1,814 million will be repayable beyond 2011. The Group's financing activities continue to be supported by its bankers.

As at 31 December 2010, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to RMB2,037 million over total equity amounting to RMB14,735 million, decreased to 13.82% from 48.34% as at 31 December 2009. The main reasons were that the Group redeemed aggregate principal amount of RMB2,625.90 million of Old 2014 Convertible Bonds during the year, and principal amount of RMB1,590 million of 2016 Convertible Bonds were converted into shares of the Company. The above redemption and conversion of convertible bonds have resulted in a reduction of overall liabilities.

Charge on group assets

As at the end of 2010, the Group's bank acceptance credit, bills payable and PRC bank loans were secured by the Group's time deposits amounting to RMB6,268 million and certain inventories with a carrying value of RMB500 million and certain buildings and self-owned properties of the Group with a carrying value of RMB2,341 million. The Group's bills payable and PRC bank loans amounted to RMB11,242 million.

Outlook and Prospects

2011 is the first year of China's Twelfth Five-Year Plan for National Economic and Social Development ("Twelfth Five-Year Plan"), which follows a core focus on expanding domestic demand. The means to expand domestic demand include adjusting income distribution, attempting to raise citizens' income level substantially, and supporting urban construction. As well as expansion, the Twelfth Five-Year Plan also focuses on social security and improvement of people's living standards, especially through housing. The PRC Government has resolved to build 36 million units of social housing over the next five years, which will lead to a considerable follow-on rise in spending on home appliances. This favorable external policy environment will further escalate growth in the home appliances retail sector. As it pursues its goal of building a first-class home appliances retail enterprise in China, the Group has set out strategic guidelines for "leading ahead in 2011 through maximum effort and minimal waste".

Expanding network coverage

In 2010, the Group transformed its existing stores across the board, achieving strong results in same-store sales growth. In 2011, it will further increase its pace of expansion, building on the solid foundation laid in the previous year. Applying a cluster development model, the Group will concentrate on opening stores, particularly megastores and flagship stores, in key regions especially the five major metropolitan areas of Greater Beijing, Greater Shanghai, Shandong, Greater Sichuan and Greater Canton. In second-tier markets, the Group will also speed up the pace of store opening to enhance and expand coverage, while always remaining conscious of the need to preserve its supply chain. With concerted efforts in first-tier and second-tier markets, the Group will maintain its leadership of the home appliance retail industry.

Strengthening store operating efficiency

The Group will continue to prioritize the transformation of existing stores to enhance its retail category management in 2011. The Group will continue to optimize its brands, models and products, and will further develop its marketing of individual products, via techniques such as advertising and promotions, plus theme and event marketing, to enhance our store operations, management, and sales capabilities.

Implementing a differentiation strategy

The Group understands and appreciates product differentiation, as a basis for diversifying its business channels and creating new earnings streams. This requires rapid introduction of the latest and most popular models and ranges, as well as a diverse selection of products to meet customers' fast-developing needs. This approach will secure our dominant market position and raise our gross profit margins. The Group will continue to pursue this strategy through exclusive sale, custom-tailoring, ODM and OEM manufacture, as well as accessories, and apply a centralized purchasing and distribution methodology to increase overall profitability on differentiated goods.

The management believes that providing differentiated products and services will be a key factor in enhancing the competitiveness of the Group. In the future, the Group will work even harder to promote and foster product differentiation, as an important new driver for the Company's profit growth.

Strengthening 3C business

3C products – digital devices, such as computers, cameras and communications equipment – typically having fast product upgrades will enjoy tremendous market demand in the near future as the market matures. They therefore will become a core focus for the Group. Consequently, the Group has set up a 3C business center to focus on developing this area.

In 2011, the Group intends to develop this area in four directions: launching more 3C accessories; enhancing and accelerating its cooperation with operators; strengthening product management capabilities; and improving store operations. The Group will raise its emphasis on promoting differentiated 3C products, including accessories which generating higher profit margin. The Group will also take a new approach to developing nationwide cooperation with China's key telecom operators, selling their products and to speed up coverage across all stores and enable the creation of sales and service counters as well as dedicated mobile zones for the operators in our stores. The Group's emphasis will shift from brand management to product category management. These various measures will increase the proportion of sales accounted for by 3C products, will attract and retain more customers in our stores, and will enhance our profitability.

Developing second-tier markets

With China's steady urbanization under way, second-tier markets will account for more than half of total home appliances market share within the next five years. The Group will accelerate store opening in these markets, and prioritize the formulation of strategic guidelines for second-tier and third-tier markets in its five focus clusters. We will further enhance the rollout of supply, management, logistics and distribution chains to ensure rapid and effective expansion of our second-tier market coverage. We will continue to transform and enhance our second-tier store concept. We will strengthen our supply chains by centralizing the procurement in the second-tier markets, with connecting the first- and second-tier supply chains. These strategic initiatives will enhance the Group's competitive strengths in second-tier markets.

Vigorous development of e-commerce

According to a research from the China Electronic Commerce Center, the value of China's online retail transactions surpassed RMB510 billion in 2010, a year-on-year increase of 22%. In the 3C home electronics retail sector alone, online sales are expected to account for 10-15% of sales in this category within the next five years. Meanwhile, as e-commerce-related logistics systems develop, online sales of traditional home electronics appliances will also expand. E-commerce therefore presents significant growth potential and business opportunities.

The Group will establish a dedicated e-commerce operations and management team to meet customer demand for multi-channel shopping. We will increase online sales platforms through approaches including M&A and in-house construction, to capture the advantages of online/offline integration, leveraging our well-developed distribution networks to complement our existing physical stores, and maintaining our market leadership.

Adopting new business information systems

The Group's nationwide sales and marketing network in large and medium-sized cities can deliver much valuable business intelligence on every aspect of procurement, storage, sales and back-office administration, which can be drawn on to capture performance and market trends in real time, given the right systematic approach to data gathering and collection.

Therefore, the Group commenced the ERP Project, with an aim to upgrade and transform its existing software systems by adopting the world's best ERP software, in accordance with its 2010 blueprint. In 2011, the Group intends to complete the implementation of the first phase of its ERP Project. We will use this advanced software system to capture and fully exploit valuable business information, enhancing overall management capabilities and driving down operating costs.

Strengthening logistics systems

Logistics is a core capability of the retail home appliances sector, and has always been a key focus of the Group's development. In 2011, the Group will build out logistics centers in pivotal regions with high sales volumes and significant market share. These centers will integrate logistics and information flow between the Group and its suppliers, based on a collective management approach. This will narrow the traditional gap between the Group and the traditional logistics operations of its suppliers, and will optimize command and control of various procedures, all the way from suppliers to end users, including information systems, warehousing and order delivery, while enhancing management of logistics information. Collaborative supply chains between the Group and our suppliers will also become more seamless and efficient following the full implementation of the new ERP systems, enhancing sharing of internal warehouses, rationalizing the Group's warehousing structure, and optimizing utilization of capital on warehousing.

Optimizing after-sales service

The Group will continue to optimize its after-sales service networks in 2011. Firstly, it will focus on improving its comprehensive service provision at its Home Appliance Clinics, building up E-express service centers. While delivering existing 3C product diagnosis and maintenance services, the E-express service centers will enhance our service coverage in various fields by offering value-added services, including consultation, installation, debugging and accessories. These E-express services are expected to fully cover first-tier markets by the end of 2011. On the other hand, the Group will integrate its self-established, contracted and complementary maintenance outlets to optimize its service capability. Concurrently, the Group will also establish comprehensive service centers in key locations, conclusively rolling out its after-sales services for traditional home appliances in these areas.

Enhancing relationships with suppliers

Retailers and suppliers are strategic partners, with our shared interests positively correlated. In 2011, we will continue to enhance our win-win strategy with suppliers, tapping our integrated service platform to develop smooth, sustainable and mutually beneficial relationships with them. By developing our business model from "shopping mall model" operation to "merchandize management model", we will reduce deliver costs for suppliers while raising the input-output ratio on both sides.

As a leading Chinese home appliances retailer, the Group will continue to press for the evolution of the industry, and will establish a supplier performance management platform to optimize its supply chain. We will continue to enhance standardized management of suppliers' contracts, and increase our focus on exclusive sale. We will endeavor to make our new-model stores the preferred platform for every first launch by our suppliers. In addition, being always conscious of sustainable profitability for retailers and suppliers, we will look closely at maintaining the sustainable and healthy development of the entire industry. Together with its suppliers, the Group will seek to become an exemplar internationally for home appliance sales.

Capitalizing on China's fiscal policies

As a leading home appliances retailer, the Group is a formulator, participant and key executor of China's fiscal stimulus policies. The Group has become a major force in their implementation, thanks to its high-quality and low-priced goods, its stable and comprehensive supply chain, its sound logistics and distribution systems, and its after-sales network, as well as its innovative sales and service models.

The Group will continue to specifically prioritize these fiscal stimulus policies, including the "go rural", "exchange old for new" and "energy-saving subsidies" programs, adapting its network build-out and operation responsively while increasing its sales revenue and operating efficiency, to answer the national call for "driving domestic demand, maintaining growth and fostering development" as part of its commitment to corporate citizenship.

Highlights of the Year

December 2010

- Deloitte Touche Tohmatsu, one of the world's four largest accounting firms, published its report "Global Powers of Retailing 2011", in which GOME was ranked 86 among the Global Powers of Retailing Top 250.

- GOME received the "Gold Award for the Best Selling Licensed Retailer of 2010 Shanghai World Expo" from the 2010 Shanghai World Expo Organization Committee and World Expo Coordination Board of Shanghai Municipal People's Government for sales totaling RMB7 billion in the World Expo.

- At the 17th China International Advertising Festival, GOME was granted the "Chinese Media Innovation Marketing Award for 2010" by the China Advertising Association for its precise advertising project in the areas of focus search, box search and universal search.

- GOME launched its self-developed Flytouch 2 tablet PC, mainly with 8-inch and 10-inch monitors. Meanwhile, GOME entered into a five-year RMB12 billion strategic agreement with a solution provider for self-development of products.

- According to "The Most Valuable Chinese Brands" by R&F Global Ranking announced in New York, the GOME brand was named "the most valuable brand" in China's retail industry for the fourth consecutive year, by virtue of GOME's brand value reaching RMB52.6 billion in 2010.

November 2010

- GOME invested in COO8 shopping website.

- GOME received the "Gold Award for Top 500 Retail Enterprises in Asia Pacific – China" and was ranked No.1 among PRC retailers according to the "2010 Top 500 Retail Enterprises in Asia Pacific" published by Retail Asia Magazine, Singapore.

- At the "PRC Retail Leaders Summit" held by the PRC Retail China Operations Association, GOME was granted the "2010 Innovation Award for PRC Retailers" based on its innovative marketing project "Make A Better Life with Shanghai World Expo".

October 2010

- At the World's Top 500 Chinese Enterprises Forum, GOME was accredited as one of the "World's Top 500 Chinese Enterprises for 2010".

September 2010

- GOME entered into a two-year RMB30 billion strategic cooperation agreement with Samsung and became Samsung's largest channel distributor in China.

- At the 4th China CEO Annual Meeting, GOME was elected as one of the "Top 100 Most Innovative Enterprises in China for 2010".

- GOME was granted the "Most Influential Model Enterprise Award for Driving Customer Satisfaction in the Home Appliance Industry" by the China Association for Quality and State Information Center.

August 2010

- GOME was ranked the 55th among the Top 500 Chinese Enterprises and the 22nd among the Top 500 Service Enterprises.

July 2010

> GOME entered into a RMB6 billion strategic agreement with Sharp, which was the biggest cooperation deal ever for a single product.

> GOME entered into a 3-year RMB50 billion strategic cooperation agreement with Haier Group. Haier will provide no less than 300 types of personalized products to GOME every year.

> GOME was granted the accolade of one of the "50 Best Chinese Brands 2010 by Forbes".

June 2010

> GOME launched its Flytouch tablet PC, propelling its shift from a concession model to a merchandise management model.

> GOME was granted the "Top Brand Contributor Award" at the 2nd General Assembly on China Brands and Communication organized by the China Media Culture Promotion Association and China Brand Dissemination Association.

May 2010

> GOME entered into a RMB9.3 billion strategic cooperation agreement with LG, pursuant to which GOME became LG's largest channel distributor in China.

April 2010

> GOME donated RMB6 million to Yushu earthquake relief in Qinghai to establish children's welfare homes in the area with the Ministry of Civil Affairs.

> GOME donated 250 tonnes of rice to Kunming, Yunnan, the region most severely hit in southwest China's drought.

March 2010

> The 7th GOME Staff Annual Meeting was held in Beijing with the theme was "We Change".

> GOME was named the "2010 Quality and Creditworthiness – 3.15 Best Assured Unit" by the China Foundation of Consumer Protection.

To join forces with one heart

> The voyages of sailboats across the sea depend on the wind. A crew should therefore cooperate together to combine sail and helm to reach the final destination. By systematic training, transmission and orientation about its corporate culture, GOME achieves a coherent sense of values and codes of conduct throughout its staff, making their thinking consistent with their actions, which contributes tremendously to building up this enterprise as a first-class and highly-respected company in China.

Directors and Senior Management Profile

The brilliant management team of GOME has attracted many elites.

Chairman

Mr. Zhang Da Zhong, aged 62, has been the Chairman and non-executive Director of the Company since 10 March 2011. Mr. Zhang was the founder of Beijing Dazhong Electrical Appliances Co. Ltd., one of the leading domestic appliances retail chains in mainland China. Mr. Zhang sold all of his interests in Beijing Dazhong Electrical Appliances Co., Ltd. in end 2007 and established Beijing Dazhong Investment Co. Ltd., a company that engages primarily in private equity investment in which he is currently the president. Mr. Zhang had been honored as "China's Outstanding Private Entrepreneur" (中國優秀民營企業家) and "Outstanding Builder of Chinese Featured Socialism" (優秀中國特色社會主義事業建設者), and was a member of the 8th Chinese People's Political Consultative Conference of Beijing and a member of the standing committee for both the 9th and 10th Chinese People's Political Consultative Conference of Beijing. Mr. Zhang is currently the deputy chairman of the Beijing Federation of Industry and Commerce (北京市工商聯) and a member of the standing committee of the 13th Beijing People's Congress.

Executive Directors

Mr. WANG Jun Zhou, aged 49, has been the President of the Group since 28 June 2010 and was appointed as an executive Director of the Company with effect from 23 December 2008. He is also a director of various subsidiaries of the Company. Mr. Wang was the Executive Vice President of the Group during the period from November 2006 to June 2010. Mr. Wang is responsible for the overall management of daily operations, including the formulation of the Group's medium and long-term strategic plans and annual budgets as well as standardisation of various systems, processes and authorisations for the Group. Mr. Wang also assists in providing guidance and supervision as to the daily operations in each major region and each division of the Group as well as the appraisal and review for business management teams at all levels. Mr.

Wang has over 10 years of experience in the sale and management of electrical appliances. Mr. Wang joined the Group in 2001 and previously held positions as general manager of the operations centre, general manager of the Southern China Region and general manager of the strategic and cooperation centre of the Group. Mr. Wang is a director of Sanlian Commercial Co., Ltd., a company listed on the Shanghai Stock Exchange.

Ms. WEI Qiu Li, aged 43, has been the Vice President of the Group since November 2006 and was appointed as an executive Director of the Company with effect from 16 January 2009. She is also a director of various subsidiaries of the Company. Ms. Wei is mainly responsible for the medium-to-long term strategic planning, preparation of annual budget, standardisation of various policies, systems and authorisations, organisational planning and human resources training of the Group. Ms. Wei has over 10 years of experience in human resources and administrative management. Ms. Wei joined the Group in 2000 and had previously held positions as director of the management centre, director of the pricing centre, director of the human resources centre and director of the administration centre of the Group. Ms. Wei was a director of Beijing Centergate Technologies (Holding) Co. Ltd. (北京中關村科技發展（控股）股份有限公司), a company listed on the Shenzhen Stock Exchange, between 11 January 2007 and 15 January 2009.

Mr. NG Kin Wah, aged 51, has been an executive Director of the Company since September 2000. Mr. Ng also serves as a director of various subsidiaries of the Company. Mr. Ng has over 20 years of experience in securities investment and is well-versed in corporate finance. Mr. Ng is a fellow member of the Hong Kong Institute of Directors Limited. With effect from 13 July 2009, Mr. Ng was appointed to be a director of Shinning Crown Holdings Inc. and Shine Group Limited, both of which are wholly owned by Mr. Wong Kwong Yu, a controlling shareholder of the Company.

Mr. ZOU Xiao Chun, aged 41, has been an executive Director of the Company and the Vice President of the Group since December 2010. Mr. Zou is mainly responsible for the Chinese legal and compliance matters and other deal-specific projects of the Group and is also a director of various subsidiaries of the Company. Mr. Zou graduated from the Department of Law of Nanchang University (formerly known as Jiangxi University) (南昌大學（原江西大學）法律專業專科) in June 1990 and was granted the Chinese Lawyers Qualification Certificate (中國律師資格證書) in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate (中國税務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) in October 1996. Mr. Zou has been a practising lawyer for almost 20 years and has practised in legal areas relating to capital markets in the People's Republic of China for 10 years. In June 2006, Mr. Zou founded Beijing John & Law Firm (北京市中逸律師事務所) and has been acting as the founding partner and the managing partner since then. Mr. Zou has also been a member of the Professional Committee for Mergers, Acquisitions and Reorganizations of the Beijing Lawyers Association (北京律師協會併購與重組專業委員會) since June 2005. Since 2001, Mr. Zou has been acting as the retainer legal adviser for Beijing Eagle Investment Co. Ltd (北京鵬潤投資有限公司) and Beijing Gome Electrical Appliance Co., Ltd (北京國美電器有限公司), both of which are owned or controlled by Mr. Wong Kwong Yu, a controlling shareholder of the Company. Between 2001 and 2009, Mr. Zou was also the retainer legal adviser of GOME Appliance Company Limited (國美電器有限公司), a subsidiary of the Company. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) Co., Limited (北京中關村科技發展（控股）股份有限公司) (a company listed on the Shenzhen Stock Exchange).

Non-Executive Directors

Mr. ZHU Jia, aged 48, has been a non-executive Director of the Company since August 2009 and was re-appointed as non-executive Director of the Company by the Board of the Company on 11 May 2010 right after he was not re-elected as non-executive Director of the Company on the same date at the annual general meeting of the Company. Mr. Zhu is a Juris Doctorate degree holder from Cornell Law School and is currently a managing director of Bain Capital Asia, LLC. Mr. Zhu has solid and extensive experience in a broad range of cross border mergers and acquisitions as well as internal financing transactions involving Chinese companies. Before joining Bain Capital Asia, LLC in 2006, he was a managing director of the investment banking division of and the chief executive officer of the China business of Morgan Stanley Asia Limited. He is also a non-executive director of Sinomedia Holding Limited, a company listed on Hong Kong Stock Exchange. Mr. Zhu has been appointed a non-executive director of Sunac China Holdings Limited (a company listed on Hong Kong Stock Exchange) since September 2009 and Greatview Aseptic Packaging Company Limited (a company listed on Hong Kong Stock Exchange) since July 2010, and an independent director of Youku.com Inc. (a company listed on New York Stock Exchange) since November 2007.

Mr. Ian Andrew REYNOLDS, aged 38, has been a non-executive Director of the Company since August 2009 and was re-appointed as non-executive Director of the Company by the Board of the Company on 11 May 2010 right after he was not re-elected as non-executive Director of the Company on the same date at the annual general meeting of the Company. Mr. Reynolds is currently a managing director of Bain Capital Asia, LLC. During his 14 years in the private equity industry, Mr. Reynolds has worked with companies in a variety of industries in the United States, Europe and Asia. Prior to Bain Capital Asia, LLC, Mr. Reynolds was a consultant at Bain & Company, where he worked extensively in the technology and consumer products industries. Mr. Reynolds obtained a Master Degree in Business Administration from Harvard Business School where he was a Baker Scholar and graduated cum laude with a Bachelor Degree in Arts from Yale College.

Ms. WANG Li Hong, aged 43, has been a non-executive Director of the Company since August 2009 and was re-appointed as non-executive Director of the Company by the Board of the Company on 11 May 2010 right after she was not re-elected as non-executive Director of the Company on the same date at the annual general meeting of the Company. Ms. Wang is currently a managing director of Bain Capital Asia, LLC. Ms. Wang has more than 20 years of experience in the banking and finance industry in the United States and Asia. Before joining Bain Capital Asia, LLC in July 2006, Ms. Wang was an executive director at Morgan Stanley from April 2005 to July 2006, worked at J.P. Morgan Securities Asia Pacific Limited from October 2001 to March 2005 and Credit Suisse First Boston (U.S.) from September 1999 to September 2001. Ms. Wang obtained a Master Degree in Business Administration from Columbia Business School and was a graduate from Fudan University.

Ms. HUANG Yan Hong, aged 34, has been a non-executive Director of the Company since December 2010. She graduated from The China Europe International Business School (中歐國際工商學院). Ms. Huang served as the accountant and the manager of the Finance Department of GOME Appliance Company Limited (國美電器有限公司) from January 1994 to December 1996, the deputy general manager of GOME Appliance Company Limited (國美電器有限公司) from January 1997 to June 2000, the deputy general manager of Beijing Eagle Real Estate Development Co., Ltd. (北京鵬潤房地產開發有限責任公司) from June 2000 to May 2003, the director of the Supervision Centre of GOME Appliance Company Limited (國美電器有限公司) from June 2003 to August 2004, and the chairwoman of the board of directors of Beijing Mingtian Xinhua Investment Co., Ltd. (北京明天信華投資有限公司) from January 2008 to date. Ms. Huang is the sister of Mr. Wong Kwong Yu who is a controlling shareholder of the Company.

Independent Non-Executive Directors

Mr. SZE Tsai Ping, **Michael**, aged 65, has been an independent non-executive Director of the Company since 31 October 2002. Mr. Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) degree at the University of Hong Kong. He is currently a member of the Securities and Futures Appeals Tribunal in Hong Kong. Mr. Sze was a former Council Member, member of the Main Board Listing Committee, member of the Disciplinary Appeals Committee of the Hong Kong Stock Exchange and member of the Cash Market Consultative Panel of Hong Kong Exchange and Clearing Limited in Hong Kong. Mr. Sze has been a non-executive director of Burwill Holdings Limited since June 2000 and an independent non-executive director of Greentown China Holdings Limited since June 2006, Harbour Centre Development Limited and Walker Group Holdings Limited since May 2007, all of which are listed on the Hong Kong Stock Exchange. Mr. Sze resigned, on 23 January 2008 and 3 November 2009 respectively, as an independent non-executive director of T S Telecom Technologies Limited and C Y Foundation Group Limited, both of which are listed on the Hong Kong Stock Exchange. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also a fellow of the Hong Kong Institute of Directors Limited.

Mr. CHAN Yuk Sang, aged 65, has been an independent non-executive Director of the Company since 20 May 2004. Mr. Chan has more than 30 years of experience in the banking and finance industry. Mr. Chan was the chairman of Century Legend (Holdings) Limited from September 1999 to July 2002 and a director of Hong Kong Building & Loan Agency Ltd. from 1993 to 1995, both being companies listed on Hong Kong Stock Exchange. Mr. Chan was a senior general manager of a local bank and an executive director of a joint Chinese foreign bank in Shenzhen. Mr. Chan is currently an independent non-executive director of Four Seas Mercantile Holdings Limited, a company listed on Hong Kong Stock Exchange and has been appointed as an independent non-executive director of Imagi International Holdings Limited (a company listed on Hong Kong Stock Exchange) since 11 May 2010.

Mr. Thomas Joseph MANNING, aged 55, has been an independent non-executive Director of the Company since 22 May 2007. Since April 2010, Mr. Manning has been the chief executive officer of Cerberus Asia Operations & Advisory Limited, which is owned by Cerberus Capital Management, a global private equity firm. Formerly, he was the chief executive officer of Indachin Limited, a business design firm focused on custom-building information service companies in India and China. He is also the founder of China Board Directors Limited, a company comprising influential senior executives providing board leadership to companies in China. Earlier in his career, Mr. Manning held leadership positions with McKinsey & Company, CSC Index and Buddy Systems, Inc., a technology venture. He had previously served as a director of Bain & Company and the chief executive officer of Ernst & Young Consulting Asia, the chief executive officer of Capgemini Asia and the global managing director of Strategy & Technology Consulting Business of Cap Gemini Ernst & Young. Mr. Manning has worked with numerous retailers across the United States of America, Europe and Japan on operational, strategic and franchising issues. Mr. Manning is an independent director of AsiaInfo, Inc., a company based in Beijing and listed on The Nasdaq Stock Market, Inc. Since December 2010, he has also been appointed as an independent director of iSoftStone, Inc., a company listed on New York Stock Exchange. Formerly, he was an independent non-executive director of Bank of Communications Co., Ltd., a company listed on Hong Kong Stock Exchange until retirement in August 2010 after six years and two terms of service. He is also a board member of several private companies in China and India.

Mr. Lee Kong Wai Conway, aged 56, has been an independent non-executive Director of the Company since 10 March 2011. Mr. Lee received a bachelor's degree in arts from the Kingston University (formerly known as the Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from the Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young for 29 years until 2009 and had held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of China Taiping Insurance Holdings Company Limited, Chaowei Power Holdings Limited, West China Cement Limited and China Modern Dairy Holdings Limited, companies listed on the main board of the Hong Kong Stock Exchange, since October 2009, June 2010, July 2010 and October 2010, respectively, and Sino Vanadium Inc., a company listed on the TSX Venture Exchange in Canada since October 2009. Mr. Lee has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Except as disclosed above, none of the Directors is related to any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

Senior Management

Mr. FANG Wei, aged 39, was appointed as the Acting Chief Financial Officer of the Group with effect from 27 November 2008 and is a member of the decision-making committee of the Group. Mr. Fang is a director of certain subsidiaries of the Company. Mr. Fang is responsible for the overall planning and implementation of the Group's internal budget as well as the accounting and auditing system. Mr. Fang also participates in major decision making in relation to the investment, financing and operations of the Group. Mr. Fang is a graduate of the accounting faculty of Central University of Finance and Economics (中央財經大學會計系) and a holder of a Master degree in Management. He is qualified as a senior accountant and senior economist in China. Mr. Fang has extensive and solid experience in finance management, internal control, budget control and capital management in China. Since 1994, Mr. Fang had held senior management positions in China National Electronics Import & Export Corporation (中國電子進出口公司), KPMG Huanzhen and 北京朝歌寬頻數碼科技有限公司. He joined the Group in January 2005 and had held positions as assistant director and the director of the finance centre and member of the execution committee of the Group. Mr. Fang was named as the "Talented Youth of Retail Sector in China for Year 2008" (2008年度中國零售業青年英才) by China Business Herald (中國商報) and linkshop.com.cn (聯商網) jointly.

Mr. LI Jun Tao, aged 45, is the Vice President of the Group, and is mainly responsible for the home electrical appliances business centre, the daily home electrical appliances centre and public organisation business centre of the Group. He is also a director of various subsidiaries of the Company. He is one of the important decision makers in relation to the business operations and development strategies of the Group. Mr. Li has over 20 years of experience in electrical appliances retail business, chain store operations and management as well as market analysis. Mr. Li joined the Group in 1988, had previously held positions as a member and chairman of the decision-making committee, group general manager, deputy managing general manager, general manager of the sale and procurement centre and director of the strategic cooperation centre of the Group. Mr. Li was named as one of the "Ten High-Profile Persons of Electrical Appliances Industry in China for Year 2002" (2002年度中國家電十大風雲人物) by China Electronics News (中國電子報) and SINA (新浪網) jointly in February 2003 and was granted the Gold Contribution Award by the Group in February 2005. In addition, Mr. Li has been granted the "Special Contribution Award" and "Outstanding Leader Award" on numerous occasions by the Group. Mr. Li was also a torcher for the Year 2008 Olympic Games and the Year 2010 Asian Games.

Mr. HE Yang Qing, aged 47, is the Vice President of the Group, mainly responsible for the brand management centre, the store re-modelling and refurnishing centre as well as the customer service centre of the Group. Mr. He joined the Group in 2003 and had previously held positions as member of Decision-making Committee and assistant director of the sales centre of the Group. Mr. He has 25 years of extensive and solid experience in the industries of retail sale and manufacture of home electrical appliances, and was awarded one of the "Top Ten Persons of Brand Building in China for Year 2005" (2005年中國品牌建設十大人物) and one of the "Ten Outstanding Brand Managers in China for Year 2007" (2007年中國十大傑出品牌經理人). Mr. He was also a torcher for the Year 2004 and Year 2008 Olympic Games.

Mr. MU Gui Xian, aged 38, is the Vice President of the Group. He is responsible for the Group's communication equipment, IT equipment and office equipment business. He has over 10 years of experience in sales and marketing of retail business. He is also a director of various subsidiaries of the Company. Mr. Mu joined the Group in 2001 and had previously held positions as assistant director of the management centre, general manager of the store management centre, general manager of Region 1 of the Northern China Region, general manager of the Beijing Area, general manager of Northern China and general manager of the telecommunication subsidiary of the Group. Mr. Mu was named as one of the "100 Influential Persons of the Mobile Phone Industry in China for Year 2008" (2008年度中國手機界影響力100人).

The board of directors (the "Directors") of the Company (the "Board") have pleasure in submitting their report and the audited financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

Principal Activities

The Group is principally engaged in the retailing of electrical appliances and consumer electronic products in China. The Group's revenue is mainly derived from business activities in Mainland China. An analysis of the Group's income for the year is set out in note 5 to the financial statements on page 124.

Financial Statements

The results of the Group for the year are set out in the Consolidated Income Statement on page 87 and Consolidated Statement of Comprehensive Income on page 88.

The state of affairs of the Group as at 31 December 2010 is set out in the Consolidated Statement of Financial Position on pages 89 and 90.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 93 to 94.

Share Capital

Details of the movement in share capital of the Company are set out in note 31 to the financial statements on page 168.

Dividends

The Board recommended a final dividend of HK$4.1 cents (equivalent to RMB3.5 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2010, amounting to approximately HK$684,280,000 (equivalent to RMB582,275,000). The payment of the Final Dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The Company will announce the record date for the Final Dividend, the book closure dates for determining the entitlement for the Final Dividend and the proposed payment date of the Final Dividend in due course in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and applicable laws.

Reserves

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out in note 33 to the financial statements on pages 172 to 174 and in the consolidated statement of changes in equity.

As at 31 December 2010, the Company's reserves available for distribution to shareholders of the Company amounted to RMB761,062,000 (2009: negative RMB173,767,000) of which RMB582,275,000 has been proposed as a final dividend for the year.

Property, Plant and Equipment

The movements in property, plant and equipment during the year are set out in note 12 to the financial statements on pages 136 and 138.

Major Suppliers and Customers

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

– the largest supplier	9.48%
– five largest suppliers combined	32.34%

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers noted above.

The business of the Group is principally engage in retail business and the percentages of turnover for the year attributable to the Group's five largest customers was less than 30% of the Group's total turnover.

Donations

During the year, the Group has made charitable and other donations in Hong Kong and China totaling RMB10.85 million.

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. CHEN Xiao	(resigned with effect from 10 March 2011)
Mr. NG Kin Wah	
Mr. WANG Jun Zhou	
Ms. WEI Qiu Li	
Mr. SUN Yi Ding	(resigned with effect from 10 March 2011)
Mr. ZOU Xiao Chun	(appointed with effect from 17 December 2010)

Non-Executive Directors

Mr. ZHANG Da Zhong	(appointed with effect from 10 March 2011)
Mr. ZHU Jia	(re-appointed with effect from 11 May 2010)
Mr. Ian Andrew REYNOLDS	(re-appointed with effect from 11 May 2010)
Ms. WANG Li Hong	(re-appointed with effect from 11 May 2010)
Ms. HUANG Yan Hong	(appointed with effect from 17 December 2010)

Independent Non-Executive Directors

Mr. SZE Tsai Ping, Michael	
Mr. CHAN Yuk Sang	
Mr. Thomas Joseph MANNING	
Mr. LEE Kong Wai, Conway	(appointed with effect from 10 March 2011)

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

Apart from the transactions which are disclosed in notes 25 and 36 to the financial statements on page 157, and pages 177 to 179 respectively and in the section headed "Connected Transactions" hereinbelow, there were no contracts of significance, to which any member of the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

Directors' Interests in Competing Businesses

During the year, no Director of the Company was interested in any business (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, whether directly or indirectly, with the businesses of the Group.

However, during the year, Mr. Wong Kwong Yu ("Mr. Wong"), Ms. Du Juan being the spouse of Mr. Wong and Ms. Huang Xiu Hong being a sister of Mr. Wong, who remained as directors of certain subsidiaries of the Company had beneficial interest or held directorship or otherwise had control in companies which operate an electrical appliances and consumer electronics products retail network under the brand name "GOME" in different cities in China (the "Non-listed GOME Group") separate from the Group.

Mr. Wong and the Company entered into the Non-competition Undertaking on 29 July 2004 pursuant to which Mr. Wong undertook to the Company that he would not and would procure that the Non-listed GOME Group would not, amongst other things, engage in retail sales of electrical appliances and/or consumer electronic products in places in China where the Company as at 3 June 2004 had established any retail outlet for the sale of electrical appliances and consumer electronics products under the "GOME Electrical Appliances" trademark, provided that Mr. Wong remains as the controlling shareholder of the Company. The Company undertook to Mr. Wong not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in China in which any member of the Non-listed GOME Group as at 3 June 2004 had established or was in the course of establishing any retail outlet for the sale of electrical appliances and consumer electronic products under the "GOME Electrical Appliances" trademark.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the shares, the underlying shares and debentures of the Company

Name of Director	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	22,000,000 *(Note 1)*	–	186,061,228 *(Note 2)*	–	208,061,228	1.25
Wang Jun Zhou	20,000,000 *(Note 1)*	–	–	–	20,000,000	0.12
Wei Qiu Li	18,000,000 *(Note 1)*	–	–	–	18,000,000	0.11
Sun Yi Ding	13,000,000 *(Note 1)*	–	–	–	13,000,000	0.08
Ng Kin Wah	10,000,000 *(Note 1)*	–	–	–	10,000,000	0.06
Zhu Jia	1,168,920	–	–	–	1,168,920	0.01

Notes:

1. The relevant interests represent the number of shares of the Company issuable upon exercise of the Options granted to these Directors pursuant to the Share Option Scheme as was particularly described in the section headed "Share Option Scheme" below. These Options were held by these Directors beneficially.

2. These Shares were held by Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao.

Short positions in the shares, the underlying shares and debentures of the Company

Save as disclosed above, as at 31 December 2010, none of the Directors, chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' Benefits from Rights to Acquire Shares or Debentures

At the annual general meeting of the Company held on 15 April 2005, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the Board may grant share options to subscribe for the shares of the Company (the "Shares") to employees, executives and officers of the Group and such other persons as referred to in the Share Option Scheme whom the Board considers will contribute or have contributed to the Group (the "Participants") to provide them with incentives and rewards for their contribution to the Group *(Note)*. On 7 July 2009, share options to subscribe for an aggregate of 383,000,000 Shares had been granted pursuant to the Share Option Scheme. Save for the Share Option Scheme, the Company has no other share option scheme.

At no time during the year was the Company, any of its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Note: As at 28 March 2011, a maximum number of Shares available for issue under the Share Option Scheme was 603,211,032 Shares (including options for 329,232,000 ordinary shares that have been granted but not yet exercised), representing approximately 3.59% of the issued share capital of the Company as at 28 March 2011.

The number of Shares in respect of which options may be granted pursuant to the Share Option Scheme (the "Options") shall not exceed 10% of the Shares in issue on date of adoption of the Share Option Scheme. Unless otherwise approved by the shareholders of the Company in general meeting, the number of Shares in respect of which Options may be granted to each Participant in any 12-month period shall not exceed 1% (except for any grant to substantial shareholders as defined in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), or an independent non-executive Director or any of their respective associates as defined in the Listing Rules, must not in aggregate exceed 0.1%) of the issued share capital of the Company from time to time.

There is no requirement as to the minimum period during which the Option shall be held before it can be exercised and the Option granted shall be exercised during the period as may be determined by the Board provided that no Option may be exercised more than 10 years after it has been granted.

The exercise price of the Option shall not be less than the highest of (a) the closing price of the Shares as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant; (b) average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

Consideration of HK$1.00 was paid on the grant of the Option by each grantee.

The Share Option Scheme shall be valid and effective for a period of 10 years after the date of its adoption (i.e. 15 April 2005).

Share Option Scheme

As at 31 December 2010, Options to subscribe for an aggregate of 350,974,000 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

			Number of Options					
Name of grantee	Date of grant	Exercise price per Share	As at 1 January 2010	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2010 *(Note 1)*	Price of Company's shares for Options exercised *(Note 5)*
		HK$						*HK$*
Directors								
Chen Xiao	7 July 2009	1.90	22,000,000	–	–	–	22,000,000	–
Wang Jun Zhou	7 July 2009	1.90	20,000,000	–	–	–	20,000,000	–
Wei Qiu Li	7 July 2009	1.90	18,000,000	–	–	–	18,000,000	–
Sun Yi Ding	7 July 2009	1.90	13,000,000	–	–	–	13,000,000	–
Ng Kin Wah	7 July 2009	1.90	10,000,000	–	–	–	10,000,000	–
Senior management								
Fang Wei	7 July 2009	1.90	10,000,000	–	–	–	10,000,000	–
Li Jun Tao	7 July 2009	1.90	18,000,000	–	–	–	18,000,000	–
He Yang Qing	7 July 2009	1.90	10,000,000	–	–	–	10,000,000	–
Mu Gui Xian	7 July 2009	1.90	13,000,000	–	–	–	13,000,000	–
Other employees	7 July 2009	1.90	240,700,000	–	(3,726,000)	(20,000,000) *(Note 4)*	216,974,000	2.82
Total			374,700,000	–	(3,726,000)	(20,000,000)	350,974,000	–

Notes:

1. Each Option has a 10-year exercise period and may be exercised after the expiry of twelve months from the date of the grant of options.

   Each grantee may exercise up to 25%, 50%, 75% and 100% of the Options granted commencing from the first, second, third and fourth anniversaries, respectively, of the date of the grant of the Options.

2. The fair value of Options granted on 7 July 2009 under the Share Option Scheme, determined by using the Binomial Model value model, was approximately RMB296.45 million. The significant inputs into the model were the exercise price of HK$1.90, expected volatility and historical volatility of 63%, expected dividend yield rate of 1.2% and annual risk-free interest rate is 2.565%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

3. The vesting period of these Options is from the date of grant until the commencement of the exercise period mentioned above.

4. 20,000,000 Options had been cancelled during the year ended 31 December 2010.

5. The price of the Company's Shares disclosed for the Options exercised during the year is the weighted average of the closing price, quoted on the Hong Kong Stock Exchange immediately before the date of exercise of Options.

Interests and Short Positions of Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2010, other than the Directors or the chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Nature	Number of ordinary Shares held	Approximate % of shareholding
Mr. Wong *(Note 1)*	Long position	5,417,539,490	32.46
Ms. Du Juan *(Note 2)*	Long position	5,417,539,490	32.46
Shinning Crown Holdings Inc. *(Note 3)*	Long position	4,550,100,000	27.26
Bain Capital Asia Integral Investors, LP. *(Note 4)*	Long position	1,665,546,935	9.98
Bain Capital Investors, LLC *(Note 5)*	Long position	1,665,546,935	9.98
JPMorgan Chase & Co *(Note 6)*	Long position	994,755,767	5.96
	Short position	70,229,946	0.42
	Lending pool	389,183,417	2.33

Notes:

(1) Of these 5,417,539,490 Shares, 4,550,100,000 Shares were held by Shinning Crown Holdings Inc. and 624,453,890 Shares were held by Shine Group Limited (both companies are 100% beneficially owned by Mr. Wong), and 237,321,600 Shares were held by Smart Captain Holdings Limited and 5,664,000 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong).

(2) Ms. Du Juan is the spouse of Mr. Wong. The aforesaid Shares that Mr. Wong and Ms. Du Juan are deemed to be interested refer to the same parcel of Shares.

(3) Shinning Crown Holdings Inc. is 100% beneficially owned by Mr. Wong.

(4) Bain Capital Asia Integral Investors, LP. was interested in these Shares through its interests in controlled corporations.

(5) Bain Capital Investors, LLC was interested in these Shares through its interests in controlled corporations. These interests are duplicated by the interests disclosed in (Note 4) above.

(6) JPMorgan Chase & Co. held long position in 140,096,530 Shares and short positions in 70,229,946 Shares in its capacity as beneficial owner, long position in 465,475,820 Shares in its capacity as investment manager, and long position in 389,183,417 Shares in the lending pool in its capacity as custodian corporation/approved lending agent. Of these Shares, 54,435,204 Shares are listed derivatives which will be physically settled.

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2010 are set out in note 21 to the financial statements on pages 148 to 153.

Connected Transactions

During the year, the Group entered into the following transactions and arrangements with connected persons (as defined in the Listing Rules) of the Company which are required to be reported in this annual report under the Listing Rules:

(1) The Master Supply Agreement

The Group sold electrical appliances and consumer electronic products to 北京國美電器有限公司 (Beijing GOME Electrical Appliance Co., Ltd.) ("Beijing GOME"), a company beneficially owned by Mr. Wong and thus, a connected person of the Company, from time to time on an at-cost basis for a term of three financial years ended 31 December 2007, subject to the annual cap amounts (excluding value added tax) of HK$400 million, HK$500 million and HK$550 million for the financial year ended 31 December 2005, 2006 and 2007 respectively, pursuant to a conditional supply agreement (the "Master Supply Agreement") entered into between 國美電器有限公司 (GOME Appliance Company Limited) ("GOME Appliance"), a wholly owned subsidiary of the Company, and Beijing GOME on 17 March 2005. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Supply Agreement ("Master Supply Supplemental Agreement") with GOME Appliance, pursuant to which the Master Supply Agreement was supplemented by the following: (a) during the term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement), GOME Appliance shall (i) supply the electrical appliances and consumer electronics products to Beijing GOME at the request of Beijing GOME from time to time on an at-cost basis or (ii) procure its nominee (being a member of the Group) to supply the electrical appliances and consumer electronics products to Beijing GOME from time to time on an at-cost basis; (b) the term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) is extended from 31 December 2007 to 31 December 2010 unless and until terminated by GOME Appliance giving not less than 60 days' prior notice to Beijing GOME; (c) Beijing GOME shall provide the records of Beijing GOME or its subsidiaries to the auditors of GOME Appliance or its nominee for inspection; and (d) the annual cap amounts of the transactions (excluding value added tax) under the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) for the financial year ended 31 December 2008, 2009 and 2010 shall not exceed RMB500 million, RMB550 million and RMB600 million respectively. During the year, the total amount of sales made under the aforesaid agreement was approximately RMB595.36 million.

In addition, on 31 December 2010, GOME Appliance and Beijing GOME entered into a second supplemental agreement to the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) (the "Second Supplemental Master Supply Agreement"). Pursuant to the Second Supplemental Master Supply Agreement, the term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement and the Second Supplemental Master Supply Agreement) will be extended from 31 December 2010 to 31 December 2012 and it may be terminated by either party giving 30 days written notice to the other. The annual cap amounts of the transactions (excluding value added tax) under the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement and the Second Supplemental Master Supply Agreement) for the financial year ending 31 December 2011 and 2012 shall not exceed RMB800 million and RMB1,000 million, respectively.

(2) The Master Purchase Agreement

The Group purchased electrical appliances and consumer electronic products from Beijing GOME from time to time on an at-cost basis for a term of three financial years ending 31 December 2007, subject to the annual cap amounts (excluding value added tax) of HK$400 million, HK$500 million and HK$550 million for the financial year ended 31 December 2005, 2006 and 2007 respectively, pursuant to a conditional purchase agreement (the "Master Purchase Agreement") entered into between GOME Appliance and Beijing GOME on 17 March 2005. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Purchase Agreement ("Master Purchase Supplemental Agreement") with GOME Appliance, pursuant to which the Master Purchase Agreement was supplemented by the following: (a) Beijing GOME shall supply the electrical appliances and consumer electronics products to GOME Appliance or its nominee (being a member of the Group) at the request of GOME Appliance or its nominee from time to time on an at-cost basis during the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement); (b) the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) is extended from 31 December 2007 to 31 December 2010 unless and until terminated by GOME Appliance giving not less than 60 days' prior notice to Beijing GOME; (c) Beijing GOME shall provide the records of Beijing GOME or its subsidiaries to the auditors of GOME Appliance or its nominee for inspection; and (d) the annual cap amounts of the transactions (excluding value added tax) under the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) for the financial year ended 31 December 2008, 2009 and 2010 shall not exceed RMB500 million, RMB550 million and RMB600 million, respectively. During the year, the total amount of purchases made under the aforesaid agreement was approximately RMB125.06 million.

In addition, on 31 December 2010, GOME Appliance and Beijing GOME entered into a second supplemental agreement to the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) the ("Second Supplemental Master Purchase Agreement"). Pursuant to the Second Supplemental Master Purchase Agreement, the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement and the Second Supplemental Master Purchase Agreement) will be extended from 31 December 2010 to 31 December 2012 and it may be terminated by either party giving 30 days written notice to the other. The annual cap amounts of the transactions (excluding value added tax) under the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement and the Second Supplemental Master Purchase Agreement) for the financial year ending 31 December 2011 and 2012 shall not exceed RMB800 million and RMB1,000 million, respectively.

(3) The Purchasing Service Agreement

The Group negotiated with various suppliers for both the Group and the Non-listed GOME Group, being connected persons of the Company, on a centralized basis to benefit from the volume purchases and to secure more favourable terms from suppliers. The Group provided purchasing services to the Non-listed GOME Group (other than GOME Home Appliances (H.K.) Limited ("Hong Kong GOME")), and charged the Non-listed GOME Group a fee at the rate of 0.9% of the revenue generated from the sales of the Non-listed GOME Group (other than Hong Kong GOME) which was determined with reference to the gross profit margin of the Non-listed GOME Group pursuant to a purchasing service agreement (the "2004 Purchasing Service Agreement") dated 29 July 2004 entered into between 天津國美物流有限公司 (Tianjin Gome Logistics Company Limited) ("Tianjin Logistics"), a subsidiary of the Company, and Beijing GOME. On 4 December 2006, Tianjin Logistics entered into a supplemental agreement to the 2004 Purchasing Service Agreement with Beijing GOME (the "2006 Purchasing Service Agreement"), pursuant to which the 2004 Purchasing Service Agreement was supplemented by the following: (i) Tianjin Logistics may nominate any member of the Group to provide the purchasing service and/or receive the fees payable under the 2006 Purchasing Service Agreement; (ii) the term of the 2006 Purchasing Service Agreement is extended to 31 December 2009 unless and until being terminated by either party by giving prior written notice of not less than 60 days to the other; and (iii) the maximum fees to be receivable by Tianjin Logistics or its nominee from Beijing GOME under the 2006 Purchasing Service Agreement shall not exceed RMB150 million (excluding value added tax) in each financial year.

In addition, on 22 June 2009, 昆明恒達物流有限公司 (Kunming Hengda Logistics Company Limited) ("Kunming Hengda"), another indirect wholly-owned subsidiary of the Company, entered into a purchasing service agreement (the "2010 Purchasing Service Agreement") with 國美電器零售有限公司 (Gome Electrical Appliances Retail Co. Ltd.) ("Gome Retail"), a subsidiary of Beijing GOME and thus, a connected person of the Company, pursuant to which Kunming Hengda will provide and will procure other members of the Group to provide purchasing services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. The terms of the 2010 Purchasing Service Agreement are the same as those in the 2006 Purchasing Service Agreement. The maximum fees to be receivable by Kunming Hengda or its nominee from the Non-listed GOME Group under the 2010 Purchasing Service Agreement shall not exceed RMB150 million (excluding value added tax) in each financial year. The purchasing service fees charged during the year were approximately RMB150 million.

(4) The Management Agreement

The Non-listed GOME Group is managed by the same management team of the Group for systematic brand building, enhancing market information exchange and optimizing the use of resources. The Group will charge the Non-listed GOME Group at the rate of 0.75% of the total revenue of the Non-listed GOME Group if the revenue is equal to or less than RMB5 billion or at the rate of 0.6% if the revenue exceeds RMB5 billion, which is determined with reference to the expected expenses to be allocated to the Non-listed GOME Group by the head office of the Company and the expected revenue to be generated from the Non-listed GOME Group based on the anticipated business growth, pursuant to a management agreement (the "2004 Management Agreement") dated 29 July 2004 entered into between 天津國美商業管理咨詢有限公司 (Tianjin Gome Commercial Consultancy Company Limited) ("Tianjin Consultancy"), a subsidiary of the Company, and Beijing GOME. On 4 December 2006, Tianjin Consultancy entered into a supplemental agreement to the 2004 Management Agreement with Beijing GOME (the "2006 Management Agreement"), pursuant to which the 2004 Management Agreement was supplemented by the following: (i) Tianjin Consultancy may nominate any member of the Group to provide the management service and/or receive the fees payable under the 2006 Management Agreement; (ii) the term of the 2006 Management Agreement is extended to 31 December 2009 unless and until being terminated by either party by giving prior written notice of not less than 60 days to the other; and (iii) the maximum fees to be receivable by Tianjin Consultancy or its nominee from Beijing GOME under the 2006 Management Agreement shall not exceed RMB100 million (excluding value added tax) in each financial year.

In addition, on 22 June 2009, 濟南萬盛源經濟諮詢有限公司 (Jinan Wansheng Yuan Economic Consulting Company Limited) ("Jinan Wansheng"), another indirect wholly-owned subsidiary of the Company, entered into a management agreement (the "2010 Management Agreement") with Gome Retail, pursuant to which Jinan Wansheng will provide and will procure other members of the Group to provide management services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. The terms of the 2010 Management Agreement are the same as those in the 2006 Management Agreement. The maximum fees to be receivable by Jinan Wansheng or its nominee from the Non-listed GOME Group under the 2010 Management Agreement shall not exceed RMB100 million (excluding value added tax) in each financial year. The management fees charged during the year were approximately RMB100 million.

(5) The Lease Agreements

On 18 March 2011, GOME Appliance and 北京恒信商貿有限公司 (Beijing Hengxin Trading Co., Ltd) ("Beijing Hengxin") both are wholly-owned subsidiaries of the Company, entered into a number of lease agreements (the "Pengrun Lease Agreements") with respect to the Group's use of certain properties in the Pengrun Building as its office in Beijing with 北京鵬潤地產控股有限公司 (Beijing Pengrun Property Co., Ltd) ("Beijing Pengrun Property"), a company owned by Mr. Wong and his associates and thus, a connected person of the Company. Pursuant to the Pengrun Lease Agreements, GOME Appliance will lease from Beijing Pengrun Property various office units located at Pengrun Building for a term of two years from 1 January 2011 to 31 December 2012. The annual rent (including management fee) payable by the Group under the Pengrun Lease Agreements on an aggregate basis will be a sum of approximately RMB35,718,000 and RMB35,718,000, which the Company will not exceed for each of the period covered by the Pengrun Lease Agreements in 2011 and 2012. A deposit equivalent to 3 months' rent is payable by the Group to Beijing Pengrun Property under the Pengrun Lease Agreements, and thereafter the rent will be payable by the Group on a bi-monthly basis in advance before the 25th day of the relevant month.

On 18 March 2011, GOME Appliance entered into a number of lease agreements (the "Supplemental Pengrun Lease Agreements") with respect to the Group's use of certain properties in the Pengrun Building as its office in Beijing with Beijing Pengrun Property. Pursuant to the Supplemental Pengrun Lease Agreements, Beijing Pengrun Property has confirmed GOME Appliance's occupation and use of various office units located at Pengrun Building for a term of 2 years from 1 January 2009 to 31 December 2010. As settlement of the amount owing to Beijing Pengrun Property for GOME Appliance's use and occupation of the properties under the Supplemental Pengrun Lease Agreements, GOME Appliance will pay to Beijing Pengrun Property the rent and utilities fees plus interest thereon, calculated on the basis of the prevailing lending rates of banks in the PRC during the relevant period of the Supplemental Pengrun Lease Agreements. The aggregate annual rent, utilities fees and interest thereon payable by GOME Appliance would not exceed RMB41,926,000 and RMB39,468,000 for the two years ended 31 December 2009 and 2010, respectively.

On 18 March 2011, GOME Appliance entered into a lease agreement (the "Xibahe Lease Agreement") with Beijing GOME, pursuant to which GOME Appliance will lease from Beijing GOME the Xibahe Property for use by GOME Appliance as a retail store for a term of 1 year from 1 January 2011 to 31 December 2011. The annual rent payable by GOME Appliance under the Xibahe Lease Agreement will not exceed RMB13,140,000 for the year ending 31 December 2011.

On 18 March 2011, GOME Appliance entered into a number of lease agreements (the "Supplemental Xibahe Lease Agreements") with Beijing GOME, pursuant to which Beijing GOME confirmed the lease of the Xibahe Property to GOME Appliance for use by GOME Appliance as a retail store for a term of 2 years from 1 January 2009 to 31 December 2010. The annual rent and interest thereon, calculated on the basis of the prevailing lending rates of the banks in the PRC during the relevant period of the Supplemental Xibahe Lease Agreements, payable by GOME Appliance to Beijing GOME would not exceed RBM13,317,000 and RMB13,518,000 for the two years ended 31 December 2009 and 2010, respectively.

All independent non-executive Directors have reviewed the continuing connected transactions as set out in paragraphs (1) to (5) above (collectively, the "Continuing Connected Transactions") and confirmed that they were entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

3. in accordance with the relevant agreement(s) governing the above-mentioned continuing connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, the auditors of the Company have confirmed to the Board that the Continuing Connected Transactions:

1. have been approved by the Board;

2. are in accordance with the pricing policies of the Group where such transactions involved the provision of goods or services by the Group;

3. have been entered into in accordance with the relevant agreements governing such transactions; and

4. have not exceed the respective caps stated in the relevant announcements.

Employee and Remuneration Policy

As at 31 December 2010, the Group employed a total of 49,470 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

Pension Scheme

Particulars of the Group's pension schemes are set out in note 9 to the financial statements on page 132.

Commitments

Details of commitments are set out in note 35 to the financial statements on pages 175 and 176.

Independence Confirmation

The Company has received from each of the independent non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of each of the independent non-executive Directors.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and save for the deviations as disclosed in the section headed "Deviations" in the Corporate Governance Report on pages 75 to 76, has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 72 to 84.

Exchange Rates Exposure

Details of the exchange rates exposure are set out in note 40 to the financial statements on pages 190.

Purchase, Sale and Redemption of Shares

On 18 May 2010, the Company had redeemed RMB denominated USD settled zero coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") in the principal amounts of RMB2,625,900,000. The redeemed bonds had been cancelled upon the redemption. As at 31 December 2010, the principal amount of the Old 2014 Convertible Bonds outstanding was RMB149,400,000.

In addition, the Company had received a conversion notice from the bond holder of the RMB denominated USD settled 5% coupon convertible bonds due 2016 (the "2016 Convertible Bonds") on 15 September 2010 and accordingly had converted the 2016 Convertible Bonds in its principal amounts of RMB1,590,000,000 in full into 1,630,702,330 ordinary shares of the Company at the conversion price of HK$1.108 per share on 22 September 2010. The 2016 Convertible Bond had been cancelled upon the issue of the conversion shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

Convertible Securities, Options, Warrants or Similar Rights

Save for the share options as set out above and in note 32 to the financial statements and the outstanding convertible bonds and warrants as set out in notes 30 and 6 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2010.

Disclosure Pursuant to Rule 13.20 of the Listing Rules

The information required for disclosure under Rules 13.20 of the Listing Rules in relation to the Company's advance to an entity is as follows:

During the year ended 31 December 2010, Tianjin Consultancy had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2009: RMB3.6 billion) (the "Advance") to 北京戰聖投資有限公司 (Beijing Zhansheng Investment Co., Ltd.) ("Beijing Zhansheng"), a third party independent of each of the Company and its connected persons (within the meaning of the Listing Rules), through 興業銀行股份有限公司北京分行 (Beijing Branch of Industrial Bank Co., Ltd) (the "Lending Bank") pursuant to the loan agreement entered into between Tianjin Consultancy, Beijing Zhansheng and the Lending Bank on 14 December 2007. The Advance is to be used by Beijing Zhansheng for the sole purpose of acquisition of the entire registered capital of 北京市大中家用電器連鎖銷售有限公司 (Beijing Dazhong Home Appliances Retail Co., Ltd.). The Advance is a secured loan. The term of the Advance is initially from 14 December 2007 to 13 December 2008 and the interest rate was 6.561% per annum. It has been renewed and extended to 12 December 2009 in year 2008, and the interest rate was 5.103% per annum. It has been further renewed for a period of two years from 15 December 2009 to 14 December 2011 in year 2009 and the interest rate is 4.86%. As at 31 December 2010, the Advance was RMB3.6 billion and the Advance represented approximately 9.94% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

Events after the Reporting Period

Details of the events after the reporting period are set out in note 41 to the financial statements on page 195.

Five Years Financial Summary

A summary of the results, assets and liabilities of the Group for the past five years is set out on page 3.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their respective shareholders if new shares are issued.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year.

Auditors

Ernst & Young retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming Annual General Meeting of the Company.

On behalf of the Board

Zhang Da Zhong
Chairman

Hong Kong, 28 March 2011

Risk Factors

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses. The factors set out below are those that the Group believes could result in the Group's businesses, financial condition, results of operations or growth prospects differing materially from expected or historical results. These factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future. In addition, this Annual Report does not constitute a recommendation or advice for you to invest in the shares of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the shares of the Company.

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Credit terms

The Group relies on the credit terms contained in the supply agreements with its suppliers and the credit terms of its banking facilities. Pursuant to these supply agreements, most of the suppliers, according to the contracts, have granted favourable credit terms in exchange for, among other things, receiving acceptance drafts from the Group's banks for settlement of the invoices. The issuing banks currently require an upfront pledge over the Group's accounts with such banks and with the remainder to be settled upon the expiry of such bank acceptance drafts. The Group relies heavily on these favourable credit terms granted by the suppliers and issuing banks in order to conserve its working capital. In the event that the suppliers or issuing banks are unable or unwilling to offer these favourable credit terms to the Group, the operations and profitability of the Group may be adversely affected.

Terms of the supply agreements

One of the competitive strengths of the Group is its ability to offer products at competitive prices. Pursuant to most of the supply agreements between the Group and its suppliers, these suppliers have undertaken to guarantee the gross profit margin of the Group with respect to specific products supplied and sold and to offer the lowest product prices to the Group within specific locations where the Group operates. However, there is no guarantee that the Group will be able to secure these favourable terms with its suppliers after the expiry of the existing supply agreements. In the event that the Group is unable to maintain its leading position and scale of operations in the PRC retail market of electrical appliances and consumer electronics products, the suppliers may not offer the same terms to the Group after the expiry of the existing supply agreements. In such event, the business performance and profitability of the Group may be adversely affected.

Reliance on key management personnel

The success of the Group in expanding its growth in operations and maintaining growth in its profitability relies on the strategy and vision of its key management, efforts of key members of the management and their experience in the PRC electrical appliance and consumer electronics products retail market. The unanticipated resignation or departure of any of these key management members of the Group could have a material adverse impact on the operations of the Group. There is no assurance that the Group will be able to manage its expansion by retaining its existing management team and by attracting additional qualified employees.

Location of outlets and lease renewal

One of the key factors in the success of the Group is its ability to establish its retail outlets at suitable and convenient locations where there is high pedestrian flow and good accessibility (whether by public transportation or otherwise). During the year ended 31 December 2010, most of the retail outlets leased by the Group are with a term of 5 to 10 years. Given the scarcity of retail premises at these suitable and convenient locations, there is no assurance that the Group will be able to find premises suitable for its retail operations or to lease them on commercially acceptable terms. In the event that there is any material difficulty in finding retail premises at suitable locations or securing the leasing of such premises on commercially acceptable terms, the Group's expansion plans and business performance may be adversely affected.

RISKS ASSOCIATED WITH THE INDUSTRY

The outbreak of any severe communicable disease in the PRC

The Directors recognise that the outbreak of SARS in the PRC in 2003 had an adverse impact on the PRC's retail industry. There can be no assurance that there will not be any outbreak of SARS or similar infectious diseases in the future. The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and the retail market. As we are primarily involved in the retailing business in the PRC, any contraction or slowdown in the growth of domestic consumption or slowdown in the growth of GDP of the PRC may materially and adversely affect our financial condition, results of operations and future growth. In addition, if our employees are affected by a severe communicable disease, we may be required to institute measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our operations, resulting in an adverse effect on our results of operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which again, may have a potentially adverse effect on our financial condition and results of operations.

Natural disasters

To the understanding of the Directors, the outbreak of natural disasters such as Sichuan Earthquake and floods in South China in 2008 had adverse effects on the retailing industry in China. As the retailing stores of the Group are scattered in provinces across the country, the management cannot assure that the operating results of the Company will not be significantly affected in the event of the outbreak of similar natural disasters in the future. Should any natural disaster occurs, certain businesses of the Group may be disrupted and accordingly the financial position and profitability of the Group will be adversely affected.

RISKS ASSOCIATED WITH THE PRC

Changes in foreign exchange regulations and fluctuation of RMB

All of the operating revenues of the Group are denominated in RMB. In order to fund its foreign currency needs, including its payment of dividends to shareholders of the Company, a portion of the Group's RMB-denominated revenue must be converted into Hong Kong dollars. Pursuant to current PRC laws and regulations on foreign exchange, foreign currencies required for the distribution of profits and payment of dividends must be purchased from designated foreign exchange banks upon presentation of tax clearance certificates issued by the relevant government authorities in respect of such dividends and board resolutions authorising the distribution of profits or dividends of the Group. The PRC government has abolished most of the restrictions on convertibility of RMB in respect of current account items while retaining restrictions on foreign exchange transactions in respect of capital account items. Despite such developments, RMB is still not freely convertible into other foreign currencies. Under the current foreign exchange control system, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to the Group to enable it to fund its foreign currency needs or to pay dividends declared.

Corporate Governance Report

Corporate Governance Practices

The Company is committed to upholding good corporate governance practices. In the past, the Board and the management of the Company have been continually reviewing and enhancing its corporate governance practices. The Board believes that its continued efforts have, directly and indirectly, contributed to the strong growth of the Group in the past years and will provide a solid foundation for achieving further business growth, broadening investors' base, promoting high standards of accountability and transparency, all of them will ultimately create value to the shareholders of the Company.

The Hong Kong Stock Exchange introduced the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") effective from 1 January 2005. The Board responded promptly in 2005 to review its corporate governance practices and took appropriate actions to ensure that the Company is in compliance with the CG Code. Since 2005, the Board has reviewed its corporate governance practices and ensured that the Company was in compliance with the CG Code on an annual basis.

Save for the deviations as disclosed in the section headed "Deviations" below, the Company has complied with the code provisions of the CG Code for the year ended 31 December 2010.

Set out below are the status and details of compliance by the Company of the CG Code in the year ended 31 December 2010.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2010.

Board of Directors

Board composition

During the year ended 31 December 2010 and up to the date of issue of this Annual Report, the Board comprises the following executive Directors, non-executive Directors and independent non-executive Directors:

Mr. Zhang Da Zhong	*(Non-executive Director and Chairman) (appointed with effect from 10 March 2011)*
Mr. Chen Xiao	*(Executive Director and Chairman) (resigned with effect from 10 March 2011)*
Mr. Ng Kin Wah	*(Executive Director)*
Mr. Wang Jun Zhou	*(Executive Director)*
Ms. Wei Qiu Li	*(Executive Director)*
Mr. Sun Yi Ding	*(Executive Director) (resigned with effect from 10 March 2011)*
Mr. Zou Xiao Chun	*(Executive Director) (appointed on 17 December 2010)*
Mr. Zhu Jia	*(Non-executive Director) (re-appointed on 11 May 2010)*
Mr. Ian Andrew Reynolds	*(Non-executive Director) (re-appointed on 11 May 2010)*
Ms. Wang Li Hong	*(Non-executive Director) (re-appointed on 11 May 2010)*
Ms. Huang Yan Hong	*(Non-executive Director) (appointed on 17 December 2010)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director) (appointed with effect from 10 March 2011)*

The biographical details of the current Board members are set out on pages 46 to 52 of this Annual Report.

Each of Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong, being a non-executive Director, is appointed with a specific term from 11 May 2010 to the date of the general meeting of the Company next following such appointment and to continue thereafter for no more than two successive terms of one year each commencing from the day following the expiry of the then current term. Ms. Huang Yan Hong, being a non-executive Director, is appointed with a specific term for 3 years from 17 December 2010. Each of Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang and Mr. Thomas Joseph Manning, being an independent non-executive Director, is appointed with a specific term of one year commencing from the date of Year 2009 Annual General Meeting of the Company and to continue thereafter for no more than two successive terms of one year commencing from the day next after the expiry of the then current term. Each of Mr. Zhang Da Zhong, being a non-executive Director and Mr. Lee Kong Wai, Conway, being an independent non-executive Director, is appointed with a specific term of 3 years from 10 March 2011. The Board has confirmed with each of the independent non-executive Directors as to his independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

Roles and functions

The Board is responsible for formulating strategic business development, reviewing and monitoring business performance of the Group, approving major funding and investment proposals as well as preparing and approving financial statements of the Group. The Board gives clear directions as to the powers delegated to the management for the administrative and management functions of the Group.

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2010, 17 Board meetings (including 4 regular Board meetings) were held. Details of the Directors' attendance records during the year are as follows:

Directors	Attendance
Mr. Chen Xiao	17/17 (4/4)*
Mr. Ng Kin Wah	13/17 (4/4)*
Mr. Wang Jun Zhou	17/17 (4/4)*
Ms. Wei Qiu Li	14/17 (3/4)*
Mr. Sun Yi Ding	17/17 (4/4)*
Mr. Zou Xiao Chun***	2/17 (0/4)*
Mr. Zhu Jia**	16/17 (4/4)*
Mr. Ian Andrew Reynolds**	14/17 (4/4)*
Ms. Wang Li Hong**	16/17 (4/4)*
Ms. Huang Yan Hong***	2/17 (0/4)*
Mr. Sze Tsai Ping, Michael	15/17 (3/4)*
Mr. Chan Yuk Sang	17/17 (4/4)*
Mr. Thomas Joseph Manning	17/17 (4/4)*

* *Regular Board meetings – Apart from all regular Board meetings, the Board also met from time to time to discuss the day-to-day operations and other affairs.*

** *As disclosed in the announcement of the Company dated 12 May 2010, Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong were not re-elected as the non-executive Directors by the shareholders at the annual general meeting of the Company held on 11 May 2010. Therefore, they did not attend the meeting of the Board held on the same day after the said annual general meeting, at which they were re-appointed by the Board as non-executive Directors.*

*** *As disclosed in the announcement of the Company dated 17 December 2010, Mr. Zou Xiao Chun and Ms. Huang Yan Hong were appointed as an executive Director and a non-executive Director respectively with immediate effect at the special general meeting of the Company held on 17 December 2010 and therefore did not attend any meeting of the Board prior to their appointments.*

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. Notices of all four regular Board meetings during the year under review were sent to all Directors in compliance with the said requirement. Agenda accompanying Board papers relating to all four regular Board meetings during the year under review were sent to all Directors at least 3 days respectively prior to such meeting in compliance with the CG Code.

Deviations

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separate and should not be performed by the same individual. As disclosed in the announcements of the Company dated 28 November 2008 and 18 January 2009, as a result of Mr. Wong Kwong Yu's inability to perform his duties as a Director and the Chairman of the Company, the Board appointed Mr. Chen Xiao who was an executive Director and the President of the Company at that time as the Acting Chairman of the Company with effect from 27 November 2008 and subsequently the Chairman of Company with effect from 16 January 2009. As Mr. Chen Xiao, who was the President of the Company until 28 June 2010, has been performing the role and function of the chief executive officer of the Company as well as the Chairman of the Board until 28 June 2010, when Mr. Wang Jun Zhou was appointed as the President of the Group as more particularly described below, it constituted a deviation from code provision A.2.1 of the CG Code during the period from 27 November 2008 to 28 June 2010. Given that Mr. Chen Xiao had been the President of the Company since completion of the Group's acquisition of China Paradise Electronics Retail Limited (which he founded) and has over 20 years of experience in the electrical and electronic retail sector in China, the Board believes that it was then in the best interest of the Group and its shareholders as a whole to have Mr. Chen Xiao to perform the functions and roles as the President and the Chairman of the Company during the interim period to provide stability to the Group and to oversee the operations of the Group in the circumstances.

With the crisis of the Group over, the Board reviewed the effectiveness of the Group's corporate governance structure, including separation of the roles of the Chairman and the President of the Company, and appointed Mr. Wang Jun Zhou as the President of the Company in place of Mr. Chen Xiao with effect from 28 June 2010 in order to satisfy the requirement for separation of roles of the Chairman and the chief executive officer of the Company under the CG Code. Since then, the roles and functions of the Chairman and the chief executive officer of the Company have been performed by Mr. Chen Xiao and Mr. Wang Jun Zhou respectively in compliance with the CG Code.

During the period under review until 28 June 2010, Mr. Chen Xiao served as the Chairman of the Company, who was primarily responsible for providing leadership to the Board, and also served as the President of the Company and an executive Director, undertaking the duties of the chief executive officer of the Company to oversee the business of the Group and executing decisions of the Board.

As disclosed in the announcement of the Company dated 9 March 2011, with effect from 10 March 2011, Mr. Chen Xiao has resigned as the Chairman and executive Director of the Company and, Mr. Zhang Da Zhong is appointed as the Chairman and non-executive Director of the Company.

Under code provision B.1.1 of the CG Code, a majority of the members of the remuneration committee should be independent non-executive directors. As disclosed in the announcement of the Company dated 10 November 2010, pursuant to the provision of the memorandum of understanding dated 10 November 2010 between the Company and Shinning Crown Holdings Inc. (the "MOU"), Ms. Huang Yan Hong, a non-executive Director, was appointed a member of the Remuneration Committee of the Board with effect from 17 December 2010. Since her appointment on 17 December 2010, the Remuneration Committee consists of three independent non-executive Directors, one executive Director and two non-executive Directors and hence, such composition of the Remuneration Committee constituted a deviation from code provision B.1.1 of the CG Code. After the enlargement of the Board and the changes in the Board composition as a result of the additional appointment of an executive director and a non-executive director pursuant to the MOU on 17 December 2010, the Board has reviewed the ratio of independent non-executive directors in the composition of the Board and its committees, and subsequently appointed Mr. Lee Kong Wai, Conway as an independent non-executive Director of the Company and a member of the Remuneration Committee with effect from 10 March 2011 in compliance with the requirement under code provision B.1.1 of the CG Code.

Board Committees

As at 31 December 2010, the Board had the following committees:

1. Remuneration Committee;
2. Nomination Committee;
3. Audit Committee;
4. Independent Committee; and
5. Executive Committee

Remuneration Committee

The Remuneration Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. During the year ended 31 December 2010, a majority of the members of the Remuneration Committee is independent non-executive Directors until 17 December 2010 when Ms. Huang Yan Hong, a non-executive Director, was appointed a member of the Remuneration Committee pursuant to the MOU, and the Remuneration Committee comprised the following members:

Mr. Chan Yuk Sang	*(Independent non-executive Director and chairman of the Remuneration Committee)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*
Mr. Wang Jun Zhou	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Huang Yan Hong	*(Non-executive Director) (appointed with effect from 17 December 2010)*

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policy on all such remunerations;

2. to have the delegated responsibilities to determine the specific remuneration packages of all executive Directors and senior management;

3. to review and approve performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time;

4. to review and approve compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate; and

6. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee shall meet at least once each year. During the year, the Remuneration Committee considered and approved the collective performance targets of the senior management of the Company for year 2010.

During the year under review, the Remuneration Committee had held one meeting. Attendance records of the members of the Remuneration Committee of such meeting are as follows:

Committee members	Attendance
Mr. Chan Yuk Sang	1
Mr. Sze Tsai Ping, Michael	1
Mr. Thomas Joseph Manning	1
Mr. Wang Jun Zhou	1
Mr. Zhu Jia	1
Ms. Huang Yan Hong*	0

* *Ms. Huang Yan Hong was appointed as a member of Remuneration Committee with effect from 17 December 2010 and therefore did not attend any meeting of the Remuneration Committee prior to her appointment.*

Nomination Committee

The Nomination Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph A.4.5 of the CG Code. During the year ended 31 December 2010, a majority of the members of the Nomination Committee is independent non-executive Directors until 17 December 2010 when Mr. Zou Xiao Chun was appointed a member of the Nomination Committee pursuant to the MOU, and the Nomination Committee comprised the following members:

Ms. Wei Qiu Li	*(Executive Director and chairman of the Nomination Committee)*
Mr. Zou Xiao Chun	*(Executive Director) (appointed with effect from 17 December 2010)*
Mr. Zhu Jia	*(Non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*

The Nomination Committee is primarily responsible for the following duties:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and

4. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the chief executive officer (if any) of the Company.

The Nomination Committee shall meet at least once each year.

During the year under review, the Nomination Committee, amongst other matters, assessed the continual independence of the independent non-executive Directors, and considered and recommended the re-election of the retiring Directors.

During the year under review, one meeting of Nomination Committee was held. Attendance records of the members of the Nomination Committee of such meeting are as follows:

Committee members	Attendance
Ms. Wei Qiu Li	1
Mr. Zou Xiao Chun*	0
Mr. Zhu Jia	1
Mr. Sze Tsai Ping, Michael	1
Mr. Chan Yuk Sang	1
Mr. Thomas Joseph Manning	1

* *Mr. Zou Xiao Chun was appointed as a member of the Nomination Committee on 17 December 2010 and therefore did not attend any meeting of the Nomination Committee prior to his appointment.*

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience and reputation of such candidate.

Pursuant to Bye-law 99(A) of the Company's Bye-laws, at each annual general meeting of the Company, at least one third of the Directors for the time being shall retire from office, except for the director holding the office as the chairman or managing director of the Company. Pursuant to the code provision A.4.2 of the CG Code, every director appointed should be subject to retirement by rotation at least once every three years. The Company has reviewed its Bye-laws and the Private Act adopted by the Company in Bermuda in 1992 with reference to the code provision A.4.2 of the CG Code and noted that section 4(e) of the Private Act stipulates that any chairman or managing director of the Company shall not be subject to retirement by rotation under the Bye-laws of the Company. In the circumstances, any proposed amendments to the Company's Bye-laws shall take into account of the provisions of the Company's Private Act which the Company is subject to.

Independent Committees

The Independent Committee was established by the Board on 21 August 2009. During the year ended 31 December 2010, the Independent Committee comprised the following members:

Mr. Thomas Joseph Manning	*(Independent non-executive Director and chairman of the Independent Committee)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wang Li Hong	*(Non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*

The Independent Committee is primarily responsible for the following duties:

1. to evaluate, assess and advise on the material connected transactions of the Group before execution;

2. to oversee the execution and performance of the material connected transactions of the Group;

3. to devise and review the internal control systems, policies and/or procedures relating to connected transaction management of the Group;

4. to monitor the compliance of material connected transactions of the Group with the applicable law and regulations;

5. to devise and review the internal control systems, policies and/or procedures of the Group generally;

6. to report to the Board on all matters relating to connected transactions and internal control matters of the Group; and

7. to consider other matters and/or special projects as assigned and authorized by the Board.

During the year under review, the Independent Committee, amongst other matters, approved the internal guidelines for connected transactions management and renewal of certain continuing connected transactions of the Group.

During the year under review, 2 meetings of Independent Committee meeting were held. Attendance records of the members of the Independent Committee of such meetings are as follows:

Committee members	Attendance
Mr. Thomas Joseph Manning	2/2
Mr. Zhu Jia	2/2
Ms. Wang Li Hong	2/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Chan Yuk Sang	2/2

Executive Committee

The Executive Committee was established by the Board on 29 July 2009. All members of the Executive Committee shall be executive Directors and the Executive Committee shall consist of not less than three members. During the year ended 31 December 2010, the Executive Committee comprised the following members:

Mr. Chen Xiao	*(Executive Director and chairman of the Executive Committee)*
Mr. Wang Jun Zhou	*(Executive Director)*
Ms. Wei Qiu Li	*(Executive Director)*
Mr. Zou Xiao Chun	*(Executive Director) (appointed with effect from 17 December 2010)*

The Executive Committee is primarily responsible for the following duties:

1. to oversee the day-to-day management and operation of the Group;

2. to make recommendations to the Board on annual budgets and performance targets;

3. to make recommendations to the Board on strategic development plans and potential acquisitions;

4. to appoint, and terminate the employment of, any officer of the Group at or above the level of vice president, including appointment of the Chief Financial Officer and Senior Legal Officer (PRC) of the Company as referred to in the Investment Agreement between the Company and Bain Capital Glory Limited;

5. to determine the specific remuneration packages and terms of employment of officers of the Group at or above the level of vice president;

6. to approve the opening and closing of bank accounts of any Group members;

7. to approve any transaction which is not required to be disclosed under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange; and

8. to approve the dissolution/deregistration of any Group member which has become dormant or ceased business or otherwise become inactive.

During the year under review, the Executive Committee, amongst other matters, approved the individual performance target of the senior management of the Company for year 2010 and the opening of bank accounts of the Group.

During the year under review, 4 meetings of the Executive Committee were held. Attendance records of the members of the Executive Committee of such meetings are as follows:

Committee members	Attendance
Mr. Chen Xiao	4/4
Mr. Wang Jun Zhou	4/4
Ms. Wei Qiu Li	4/4
Mr. Zou Xiao Chun*	0/4

* *Mr. Zou Xiao Chun was appointed as a member of the Executive Committee on 17 December 2010 and therefore did not attend any meetings of Executive Committee prior to his appointment.*

Accountability and Audit

The Directors have acknowledged by issuing a management representation letter to the Auditors that they bear the ultimate responsibility of preparing the financial statements of the Group.

Audit Committee

The Audit Committee was established in 2004. During the year ended 31 December 2010, the Audit Committee comprised the following members:

Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director and chairman of the Audit Committee)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*

The Audit Committee has adopted a written terms of reference substantially the same as those contained in paragraph C.3.3 of the CG Code.

The Audit Committee is primarily responsible for, amongst others, the following duties:

1. to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

3. to develop and implement policy on the engagement of an external auditor to supply non-audit services;

4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly report and to review significant financial reporting judgments contained in them;

5. to review the Company's financial controls, internal control and risk management systems;

6. to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

7. to review the Group's financial and accounting policies and practices; and

8. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provide a timely response to the issues raised.

The Audit Committee shall meet at least twice each year. In 2010, 6 Audit Committee meetings were held for, amongst other matters, considering the annual results of the Group for the financial year ended 31 December 2009, the quarterly results of the Group for the three months ended 31 March 2010, the interim results of the Group for the six months ended 30 June 2010 and the quarterly results of the Group for the nine months ended 30 September 2010, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group.

Attendance records of the Audit Committee members in 2010 are as follows:

Committee members	Attendance
Mr. Sze Tsai Ping, Michael	6/6
Mr. Chan Yuk Sang	6/6
Mr. Thomas Joseph Manning	5/6

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2010 is RMB7,900,000 (2009: RMB8,100,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2010 is RMB3,100,000 (2009: RMB4,586,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the 2011 AGM. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the 2011 AGM.

Internal Controls

Management had implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are compiled with, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and managed.

The Board has also reviewed the Group's internal control system and is satisfied that there is no material change to the internal control system as compared with those of the Company in 2009, and has reviewed the effectiveness of the Group's material internal controls for the year 2010 and is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

Shareholders' Rights

The Company is committed to ensure shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including annual general meetings, special general meetings, annual and half-yearly reports, notices of general meetings and circulars sent to shareholders by post, announcements on the website of the Hong Kong Stock Exchange, and press releases and other corporate communications available on the Company's website. Since September 2005, the Company has established the practice, on a voluntary basis, of publishing quarterly results of the Group on the website of the Hong Kong Stock Exchange to provide better disclosure to the financial market and to the existing and potential shareholders of the business performance of the Group.

Registered shareholders are notified by post of the shareholders' meetings. Any registered shareholder is entitled to attend and vote at the annual and special general meetings, provided that his/her/its shares have been fully paid up and recorded in the register of members of the Company.

Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor Relations".

Investor Relations

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. During the year under review, the Directors and senior management of the Company participated in numerous road shows and investment conferences. In addition, the Company also maintains regular communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Telephone number:	2122 9133
By post:	Unit 6101, 61st Floor The Center 99 Queen's Road Central Hong Kong
Attention:	Corporate Finance & Development Department
By email:	info@gome.com.hk

Independent Auditors' Report

ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

To the shareholders of
GOME Electrical Appliances Holding Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 87 to 195, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	*5*	**50,910,145**	42,667,572
Cost of sales		**(44,991,355)**	(38,408,042)
Gross profit		**5,918,790**	4,259,530
Other income and gains	*5*	**3,441,628**	3,131,646
Selling and distribution costs		**(5,114,303)**	(4,352,350)
Administrative expenses		**(1,165,138)**	(845,235)
Other expenses		**(375,323)**	(490,062)
Profit from operating activities		**2,705,654**	1,703,529
Finance costs	*7*	**(441,818)**	(348,969)
Finance income	*7*	**339,036**	341,209
(Loss)/gain on the derivative component of convertible bonds	*30(i)*	**(93,340)**	136,740
PROFIT BEFORE TAX	*6*	**2,509,532**	1,832,509
Income tax expense	*10*	**(547,878)**	(406,310)
PROFIT FOR THE YEAR		**1,961,654**	1,426,199
Attributable to:			
Owners of the parent		**1,961,654**	1,409,288
Non-controlling interests		**–**	16,911
		1,961,654	1,426,199
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*11*		
– Basic		**RMB12.7 fen**	RMB10.3 fen
– Diluted		**RMB12.0 fen**	RMB9.5 fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR		**1,961,654**	1,426,199
OTHER COMPREHENSIVE INCOME			
Changes in fair value of other investments	*16*	**(25,650)**	44,550
Gains on property revaluation	*12*	**25,204**	98,253
Income tax effect		**(6,301)**	(24,563)
		18,903	73,690
Exchange differences on translation of foreign operations		**(15,162)**	(20,804)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(21,909)**	97,436
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,939,745**	1,523,635
Attributable to:			
Owners of the parent		**1,939,745**	1,506,724
Non-controlling interests		**–**	16,911
		1,939,745	1,523,635

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**3,556,163**	3,391,950
Investment properties	*13*	**830,611**	820,671
Goodwill	*14*	**4,014,981**	4,014,981
Other intangible assets	*15*	**116,157**	125,199
Other investments	*16*	**127,710**	153,360
Prepayments for acquisition of properties	*17*	**–**	21,129
Lease prepayments	*18*	**387,784**	332,407
Deferred tax assets	*19*	**39,513**	30,763
Designated loans	*20*	**3,648,000**	3,600,000
Total non-current assets		**12,720,919**	12,490,460
CURRENT ASSETS			
Hong Kong listed investments, at fair value		**–**	1,635
Inventories	*22*	**8,084,971**	6,532,453
Trade and bills receivables	*23*	**206,102**	54,199
Prepayments, deposits and other receivables	*24*	**2,446,051**	1,701,884
Due from related parties	*25*	**251,290**	157,146
Pledged deposits	*26*	**6,268,130**	8,796,344
Cash and cash equivalents	*26*	**6,232,450**	6,029,059
Total current assets		**23,488,994**	23,272,720

Consolidated Statement of Financial Position *(continued)*

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CURRENT LIABILITIES			
Interest-bearing bank loans	*27*	**100,000**	350,000
Trade and bills payables	*28*	**16,899,683**	15,815,261
Customers' deposits, other payables and accruals	*29*	**1,819,999**	1,829,514
Due to related parties	*25*	**97,826**	–
Convertible bonds	*30*	**122,627**	2,180,357
Tax payable		**509,374**	507,245
Total current liabilities		**19,549,509**	20,682,377
NET CURRENT ASSETS		**3,939,485**	2,590,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,660,404**	15,080,803
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*19*	**111,148**	103,429
Convertible bonds	*30*	**1,814,069**	3,174,909
Total non-current liabilities		**1,925,217**	3,278,338
Net assets		**14,735,187**	11,802,465
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*31*	**417,666**	382,408
Reserves	*33(a)*	**13,735,246**	11,420,057
Proposed final dividend	*34*	**582,275**	–
		14,735,187	11,802,465
Non-controlling interests		**–**	–
Total equity		**14,735,187**	11,802,465

Zhang Da Zhong
Director

Ng Kin Wah
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent												
	Notes	Issued capital RMB'000 Note 31	Share premium account RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment valuation reserve RMB'000	Statutory reserves RMB'000 Note 33(a)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009		331,791	6,207,709	657	(216,966)	-	24,319	14,850	761,077	(182,210)	1,618,607	8,559,834	140,201	8,700,035
Profit for the year		-	-	-	-	-	-	-	-	-	1,409,288	1,409,288	16,911	1,426,199
Other comprehensive income for the year:														
Changes in fair value of other investments		-	-	-	-	-	-	44,550	-	-	-	44,550	-	44,550
Gains on property revaluation, net of tax		-	-	-	-	-	73,690	-	-	-	-	73,690	-	73,690
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(20,804)	-	(20,804)	-	(20,804)
Total comprehensive income for the year		-	-	-	-	-	73,690	44,550	-	(20,804)	1,409,288	1,506,724	16,911	1,523,635
Acquisition of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(157,112)	(157,112)
Issue of shares		50,617	1,234,282	-	-	-	-	-	-	-	-	1,284,899	-	1,284,899
Repurchases of the Old 2014 Convertible Bonds	*30(i)*	-	-	-	(444,957)	-	-	-	-	-	-	(444,957)	-	(444,957)
Issue of the 2016 Convertible Bonds	*30(ii)*	-	-	-	137,411	-	-	-	-	-	-	137,411	-	137,411
Issue of the New 2014 Convertible Bonds	*30(iii)*	-	-	-	688,021	-	-	-	-	-	-	688,021	-	688,021
Equity-settled share option arrangements	32	-	-	-	-	70,533	-	-	-	-	-	70,533	-	70,533
Transfer to statutory reserves		-	-	-	-	-	-	-	175,642	-	(175,642)	-	-	-
At 31 December 2009		382,408	7,441,991*	657*	163,509*	70,533*	98,009*	59,400*	936,719*	(203,014)*	2,852,253*	11,802,465	-	11,802,465

Consolidated Statement of Changes in Equity *(continued)*

Year ended 31 December 2010

		Attributable to owners of the parent													
	Notes	Issued capital RMB'000 Note 31	Share premium account RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment valuation reserve RMB'000	Statutory reserves RMB'000 Note 33(a)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000 Note 34	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010		382,408	7,441,991	657	163,509	70,533	98,009	59,400	936,719	(203,014)	2,852,253	-	11,802,465	-	11,802,465
Profit for the year		-	-	-	-	-	-	-	-	-	1,961,654	-	1,961,654	-	1,961,654
Other comprehensive income for the year:															
Changes in fair value of other investments	*16*	-	-	-	-	-	-	(25,650)	-	-	-	-	(25,650)	-	(25,650)
Gains on property revaluation, net of tax		-	-	-	-	-	18,903	-	-	-	-	-	18,903	-	18,903
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(15,162)	-	-	(15,162)	-	(15,162)
Total comprehensive income for the year		-	-	-	-	-	18,903	(25,650)	-	(15,162)	1,961,654	-	1,939,745	-	1,939,745
Redemption of the Old 2014 Convertible Bonds	*30(i)*	-	-	-	(683,330)	-	-	-	-	-	-	-	(683,330)	-	(683,330)
Conversion of the 2016 Convertible Bonds	*30(ii)*	35,178	1,678,681	-	(137,411)	-	-	-	-	-	-	-	1,576,448	-	1,576,448
Exercise of share options	*32*	80	8,179	-	-	(2,192)	-	-	-	-	-	-	6,067	-	6,067
Equity-settled share option arrangements	*32*	-	-	-	-	93,803	-	-	-	-	-	-	93,803	-	93,803
Transfer to statutory reserves		-	-	-	-	-	-	-	200,664	-	(200,664)	-	-	-	-
Proposed final 2010 dividend	*34*	-	-	-	-	-	-	-	-	-	(582,275)	582,275	-	-	-
Wind-up of a subsidiary		-	-	-	-	-	-	-	(11)	-	-	-	(11)	-	(11)
At 31 December 2010		417,666	9,128,851*	657*	(657,232)*	162,144*	116,912*	33,750*	1,137,372*	(218,176)*	4,030,968*	582,275	14,735,187	-	14,735,187

The asset revaluation reserve arose from changes in use from owner-occupied properties to investment properties carried at fair value.

* These reserve accounts comprise the consolidated reserves of RMB13,735,246,000 (2009: RMB11,420,057,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,509,532**	1,832,509
Adjustments for:			
Finance income	*7*	**(339,036)**	(341,209)
Finance costs	*7*	**441,818**	348,969
Loss/(gain) on the derivative component of convertible bonds	*6*	**93,340**	(136,740)
Gain on repurchases of the Old 2014 Convertible Bonds	*5*	**–**	(67,083)
Gain on redemption of the Old 2014 Convertible Bonds	*5*	**(202,578)**	–
Impairment of goodwill	*6*	**–**	2,000
Fair value loss on transfer of owner-occupied properties to investment properties	*6*	**–**	81,493
Fair value loss on investment properties	*6*	**8,488**	3,723
Fair value loss/(gain) on Hong Kong listed investments	*6*	**29**	(1,236)
Loss on disposal of items of property, plant and equipment	*6*	**16,287**	28,798
Depreciation	*6*	**332,543**	345,597
Amortisation of intangible assets	*6*	**9,042**	9,042
Cash settlement for top-up subscription shares for warrants	*6*	**–**	18,608
Equity-settled share option expense	*32*	**93,803**	70,533
		2,963,268	2,195,004
(Increase)/decrease in lease prepayments		**(55,377)**	22,682
Increase in inventories		**(1,552,518)**	(1,058,956)
Increase in trade and bills receivables		**(151,903)**	(9,107)
Increase in prepayments, deposits and other receivables		**(736,966)**	(378,627)
Increase in amounts due from related parties		**(94,144)**	(99,303)
Decrease/(increase) in pledged deposits		**2,528,214**	(3,955,888)
Increase in trade and bills payables		**1,084,422**	2,897,303
Increase in amounts due to related parties		**97,826**	–
(Decrease)/increase in customers' deposits, other payables and accruals		**(9,515)**	144,475
Cash generated from/(used in) operations		**4,073,307**	(242,417)
Interest received		**352,953**	507,734
PRC income tax paid		**(553,081)**	(440,023)
Net cash flows from/(used in) operating activities		**3,873,179**	(174,706)

	Notes	2010 RMB'000	2009 RMB'000
Net cash flows from/(used in) operating activities		**3,873,179**	(174,706)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(507,287)**	(329,527)
Proceeds from disposal of items of property, plant and equipment		**746**	6,555
Payment of outstanding considerations for business combinations		**–**	(2,760)
Increase in a designated loan		**(48,000)**	–
Proceeds from disposals of Hong Kong listed investments		**1,606**	–
Cash receipt for investment deposits		**–**	31,891
Net cash flows used in investing activities		**(552,935)**	(293,841)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*31(i)*	**–**	1,360,573
Share issue expenses		**–**	(75,674)
Repurchases of the Old 2014 Convertible Bonds	*30(i)*	**–**	(1,820,100)
Redemption of the Old 2014 Convertible Bonds	*30(i)*	**(2,685,508)**	–
Issue of the 2016 Convertible Bonds	*30(ii)*	**–**	1,590,000
Transaction costs for issue of the 2016 Convertible Bonds	*30(ii)*	**–**	(37,835)
Issue of the New 2014 Convertible Bonds	*30(iii)*	**–**	2,357,200
Transaction costs for issue of the New 2014 Convertible Bonds	*30(iii)*	**–**	(52,159)
Exercise of share options	*31(iii)*	**6,067**	–
Cash settlement for top-up subscription shares for warrants	*6*	**–**	(18,608)
New bank loans		**100,000**	860,000
Repayment of bank loans		**(350,000)**	(680,000)
Interest paid	*7, 30*	**(172,524)**	(16,064)
Net cash flows (used in)/from financing activities		**(3,101,965)**	3,467,333
NET INCREASE IN CASH AND CASH EQUIVALENTS		**218,279**	2,998,786
Cash and cash equivalents at beginning of year		**6,029,059**	3,051,069
Effect of foreign exchange rate changes, net		**(14,888)**	(20,796)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,232,450**	6,029,059
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*26*	**5,716,500**	5,492,859
Non-pledged time deposits with original maturity of less than three months when acquired	*26*	**515,950**	536,200
		6,232,450	6,029,059

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*21*	**10,142,955**	8,698,491
Total non-current assets		**10,142,955**	8,698,491
CURRENT ASSETS			
Prepayments, deposits and other receivables	*24*	**5,080**	21,190
Pledged deposits	*26*	**–**	2,606,371
Cash and cash equivalents	*26*	**1,553,331**	1,918,775
Total current assets		**1,558,411**	4,546,336
CURRENT LIABILITIES			
Other payables and accruals		**3,078**	55,786
Convertible bonds	*30*	**122,627**	2,180,357
Total current liabilities		**125,705**	2,236,143
NET CURRENT ASSETS		**1,432,706**	2,310,193
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,575,661**	11,008,684
NON-CURRENT LIABILITIES			
Convertible bonds	*30*	**1,814,069**	3,174,909
Total non-current liabilities		**1,814,069**	3,174,909
Net assets		**9,761,592**	7,833,775
EQUITY			
Issued capital	*31*	**417,666**	382,408
Reserves	*33(b)*	**8,761,651**	7,451,367
Proposed final dividend	*34*	**582,275**	–
Total equity		**9,761,592**	7,833,775

Zhang Da Zhong
Director

Ng Kin Wah
Director

1. CORPORATE INFORMATION

GOME Electrical Appliances Holding Limited (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The principal activities of the Company and its subsidiaries (the "Group") are the operations and management of networks of electrical appliances and consumer electronic products retail stores in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for Hong Kong listed investments, investment properties, other investments which classified as available-for-sale financial assets and the derivative component of the convertible bonds, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs* issued in October 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
IFRS 9	*Financial Instruments*[6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that except for the adoption of *Improvements to IFRSs 2010* as further explained below, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IFRS 3 *Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) IAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) IAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

(d) IFRS 7 *Financial Instruments: Disclosures*: (i) emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risk associated with the financial instruments; (ii) amends several quantitative and credit risk disclosures to simplify the disclosures; and (iii) requires the disclosure of the financial effect of collateral held as security and of other credit enhancements in respect of the amount that best represents the maximum exposure of credit risk.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Business combinations from 1 January 2010 *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost, less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, after taking into account the estimated residual value of 5% to 10%, as follows:

Buildings	20 to 40 years
Leasehold improvements	The shorter of the remaining lease terms and five years
Equipment and fixtures	4 to 15 years
Motor vehicles	5 years

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents stores under construction, which is stated at cost less any impairment loss, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, trade and bills and other receivables, loans receivable, amounts due from related parties, quoted and unquoted financial instruments, and derivative financial instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables or available-for-sale financial assets depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the other investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the investment revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills and other payables, amounts due to related parties, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds
The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Convertible bonds *(continued)*
If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories comprise merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value.

Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- Income from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

- Income from suppliers comprising promotion income, management fee income, display space leasing fees and product listing fees is recognised according to the underlying contract terms when these services have been provided in accordance therewith.

- Management fee income is recognised when such services have been rendered.

- Rental income is recognised on a time proportion basis over the lease terms.

- Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

- Dividend income is recognised when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market condition or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Salaries, bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the employees of the Group's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the salaries of their employees to the central pension scheme. The only obligation of these subsidiaries with respect to the central pension scheme is the ongoing required contributions. Contributions made to the retirement benefit scheme are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Inventories

The Group does not have a general provisioning policy on inventories based on ageing given the nature of inventories and the purchase return or exchange protections from suppliers. However, operational procedures are in place to monitor this risk as the majority of the Group's working capital is devoted to inventories. The Company reviews its inventory ageing on a periodical basis and compares the carrying values of the aged inventories with the respective net realisable values. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving inventories. In addition, physical counts are carried out on a periodical basis in order to determine whether allowance is needed in respect of any missing, obsolete or defective inventories identified.

Operating lease commitments – the Group as lessee

The Group has entered into commercial property leases for its retail business. The Group has determined that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

Tax provisions

Determining tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was RMB4,014,981,000 (2009: RMB4,014,981,000). Further details are given in note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amount of investment properties as at 31 December 2010 was RMB830,611,000 (2009: RMB820,671,000). Further details are given in note 13 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to tax losses at 31 December 2010 was RMB13,965,000 (2009: RMB8,861,000).

The unrecognised tax losses at 31 December 2010 amounted to RMB1,297,300,000 (2009: RMB1,047,500,000). Further details are given in note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. As at 31 December 2010, the carrying amount of available-for-sale assets was RMB127,710,000 (2009: RMB153,360,000). Further details are given in note 16 to the financial statements.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group estimates the fair value of financial derivatives based on financial modelling which requires various sources of information and assumptions. The carrying amount of the derivative component of convertible bonds as at 31 December 2010 was RMB7,349,000 (2009: RMB100,689,000). Further details are given in note 30(i) to these financial statements.

Depreciation

The Group has estimated the useful lives of the property, plant and equipment of 4 to 40 years, after taking into account of their estimated residual values, as set out in the principal accounting policies. Depreciation of items of property, plant and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property, plant and equipment as at 31 December 2010 was RMB3,556,163,000 (2009: RMB3,391,950,000). Further details are given in note 12 to the financial statements.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the operations and management of networks of electrical appliances and consumer electronic products retail stores in the PRC. The corporate office in Hong Kong does not earn revenues and is not classified as an operating segment.

Management monitors the results of the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, the fair value loss or gain on the derivative component of convertible bonds, gain on repurchases of the Old 2014 Convertible Bonds, gain on redemption of the Old 2014 Convertible Bonds and other expenses incurred for the corporate office in Hong Kong are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss and other investments as these assets are managed on a group basis.

4. SEGMENT INFORMATION *(continued)*

Segment liabilities exclude interest-bearing bank loans, convertible bonds, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

	2010 RMB'000	2009 RMB'000
Segment revenue		
Sales to external customers	**50,910,145**	42,667,572
Segment results	**2,862,919**	1,945,269
Reconciliation:		
Interest income	**164,076**	160,027
Unallocated gains	**15,466**	4,421
(Loss)/gain on the derivative component of convertible bonds	**(93,340)**	136,740
Gain on repurchases of the Old 2014 Convertible Bonds (defined in note 30)	**–**	67,083
Gain on redemption of the Old 2014 Convertible Bonds	**202,578**	–
Finance costs	**(441,818)**	(348,969)
Corporate and other unallocated expenses	**(200,349)**	(132,062)
Profit before tax	**2,509,532**	1,832,509
Segment assets	**23,542,110**	20,752,019
Reconciliation:		
Corporate and other unallocated assets	**12,667,803**	15,011,161
Total assets	**36,209,913**	35,763,180
Segment liabilities	**18,817,508**	17,644,775
Reconciliation:		
Corporate and other unallocated liabilities	**2,657,218**	6,315,940
Total liabilities	**21,474,726**	23,960,715
Other segment information		
Impairment losses recognised in the income statement	**1,008**	31,866
Depreciation and amortisation	**341,585**	354,639
Capital expenditure*	**507,287**	471,244

* Capital expenditure consists of additions to property, plant and equipment.

4. SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2010	2009
	RMB'000	RMB'000
Mainland China	**50,910,145**	42,667,572

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2010	2009
	RMB'000	RMB'000
Mainland China	**8,896,662**	8,698,144
Hong Kong	**9,034**	8,193
	8,905,696	8,706,337

The non-current asset information above is based on the location of assets and excludes deferred tax assets, designated loans and other investments.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Notes	2010 RMB'000	2009 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**50,910,145**	42,667,572
Other income			
Income from suppliers		**2,166,652**	2,221,466
Management fees:			
– from the Non-listed GOME Group	*(i)*	**250,000**	233,541
– from Dazhong Appliances	*(ii)*	**101,577**	25,496
Management fees for air-conditioner installation		**137,676**	98,290
Rental income		**189,438**	127,610
Government grants	*(iii)*	**139,605**	93,497
Other service fee income		**106,221**	102,177
Compensation income from a landlord		**26,193**	59,271
Others		**121,688**	89,057
		3,239,050	3,050,405
Gains			
Gain on repurchases of the Old 2014 Convertible Bonds		**–**	67,083
Gain on redemption of the Old 2014 Convertible Bonds	*30(i)*	**202,578**	–
Foreign exchange difference, net		**–**	14,158
		202,578	81,241
		3,441,628	3,131,646

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Notes:

(i) The Non-listed GOME Group is defined in note 36(a) to the financial statements.

(ii) The Group entered into a management agreement (the "Management Agreement") with Beijing Zhansheng Investment Co., Ltd. ("Beijing Zhansheng") on 14 December 2007 and the Management Agreement was renewed on 15 December 2009. Pursuant to the Management Agreement, the Group manages and operates the retailing business of Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances") for management fees.

(iii) Various local government grants were received to reward the Group's contributions to the local economy. There was no unfulfilled condition or contingency attaching to these government grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2010** **RMB'000**	2009 RMB'000
Cost of inventories sold		**44,991,355**	38,408,042
Depreciation	*12*	**332,543**	345,597
Amortisation of intangible assets	*15, (i)*	**9,042**	9,042
Loss on disposal of items of property, plant and equipment		**16,287**	28,798
Minimum lease payments under operating leases in respect of land and buildings		**2,242,618**	2,038,504
Gross rental income	*5*	**(189,438)**	(127,610)
Fair value loss on transfer of owner-occupied properties to investment properties	*12*	**–**	81,493
Fair value loss on investment properties	*13*	**8,488**	3,723
Management fees from Dazhong Appliances	*5*	**(101,577)**	(25,496)
Interest income from Beijing Zhansheng	*7*	**(174,960)**	(181,182)
Loss/(gain) on the derivative component of convertible bonds	*30(i)*	**93,340**	(136,740)
Gain on redemption of the Old 2014 Convertible Bonds	*30(i)*	**(202,578)**	–
Fair value loss/(gain) on Hong Kong listed investments		**29**	(1,236)
Foreign exchange differences, net		**35,086**	(14,158)
Impairment of goodwill	*14*	**–**	2,000
Cash settlement for top-up subscription shares for warrants	*(ii)*	**–**	18,608

125

6. PROFIT BEFORE TAX *(continued)*

	2010 RMB'000	2009 RMB'000
Auditors' remuneration		
– audit services	**7,900**	8,100
– non-audit services	**3,100**	1,200
Staff costs excluding directors' remuneration *(note 8)*:		
Wages, salaries and bonuses	**1,387,039**	1,119,682
Pension scheme contributions	**256,043**	241,200
Social welfare and other costs	**17,507**	6,841
Equity-settled share option expense	**67,368**	53,923
	1,727,957	1,421,646

Notes:

(i) The amortisation of intangible assets for the year is included in "Administrative expenses" in the income statement.

(ii) On 28 January 2006 and 28 February 2006, the Company and Warburg Pincus Private Equity IX, L.P. ("Warburg Pincus") entered into a subscription agreement and a supplemental agreement respectively (collectively referred to as the "Subscription Agreement"), pursuant to which the Company issued warrants at a subscription price of US$3,000,000 to a subsidiary of Warburg Pincus on 1 March 2006. The holder of the warrants is entitled to subscribe for a maximum amount of US$25,000,000 of new shares of the Company during an exercise period of five years commencing from 1 March 2006 ("Warrants"). None of the Warrants was exercised up to the end of the reporting period.

On 22 June 2009, the Company announced an open offer (the "Open Offer") of not less than 2,296,576,044 open offer shares and not more than 2,484,657,375 open offer shares at the subscription price of HK$0.672 per open offer share on the basis of 18 open offer shares for every 100 existing shares held by the qualifying shareholders on the record date and payable in full on application. Upon the completion of the Open Offer on 31 July 2009, 2,296,576,044 shares of the Company have been issued and fully paid.

In accordance with the Subscription Agreement, Warburg Pincus has the right to subscribe for certain top-up subscription shares of the Company as a result of the Open Offer and the issuance of the 2016 Convertible Bonds (note 30(ii)) by the Company. During the year ended 31 December 2009, the Company paid an amount of approximately RMB18,608,000 to Warburg Pincus to settle the top-up subscription shares for the warrants and it was recognised as an expense in the income statement.

As set out in note 41 to these financial statements, the Warrants were exercised in full subsequent to 31 December 2010.

7. FINANCE (COSTS)/INCOME

An analysis of finance costs and finance income is as follows:

	Notes	2010 RMB'000	2009 RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		**(11,266)**	(16,064)
Interest expenses on convertible bonds	*30*	**(430,552)**	(332,905)
		(441,818)	(348,969)
Finance income:			
Bank interest income		**164,076**	160,027
Other interest income	*(i)*	**174,960**	181,182
		339,036	341,209

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan (note 20) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest at a rate of 4.86% (2009: ranging from 4.86% to 5.103%) per annum, which was determined by reference to the interest rates published by the People's Bank of China.

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2010 RMB'000	2009 RMB'000
Fees	**1,068**	4,555
Other emoluments:		
Salaries, allowances, bonuses and other expense	**14,985**	5,803
Equity-settled share option expense	**26,435**	16,610
Pension scheme contributions	**110**	109
	41,530	22,522

During the year 2009, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Notes	2010 RMB'000	2009 RMB'000
Mr. Chan Yuk Sang		**261**	705
Mr. Sze Tsai Ping, Michael		**261**	264
Mr. Thomas Joseph Manning		**261**	705
Mr. Mark Christopher Greaves	*(iii)*	**–**	1,018
Dr. Liu Peng Hui	*(ii)*	**–**	132
Mr. Yu Tung Ho	*(iii)*	**–**	595
		783	3,419

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2009: Nil).

(ii) Dr. Liu Peng Hui retired as a director with effect from 30 June 2009.

(iii) Mr. Yu Tung Ho and Mr. Mark Christopher Greaves resigned as directors with effect from 30 July 2009.

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Executive directors and non-executive directors

2010	Notes	Fees RMB'000	Salaries, allowances, bonuses and other expense RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Mr. Chen Xiao	*(i)*	–	5,464	7,007	28	12,499
Mr. Ng Kin Wah		–	1,200	3,185	–	4,385
Mr. Wang Jun Zhou		–	3,240	6,370	29	9,639
Ms. Wei Qiu Li		–	2,643	5,733	29	8,405
Mr. Sun Yi Ding	*(i)*	–	2,438	4,140	24	6,602
Mr. Zou Xiao Chun	*(ii)*	–	–	–	–	–
		–	14,985	26,435	110	41,530
Non-executive directors:						
Mr. Zhu Jia		95	–	–	–	95
Ms. Wang Li Hong		95	–	–	–	95
Mr. Ian Andrew Reynolds		95	–	–	–	95
Ms. Huang Yan Hong	*(iii)*	–	–	–	–	–
		285	14,985	26,435	110	41,815

Notes:

(i) Mr. Chen Xiao and Mr. Sun Yi Ding resigned as directors on 10 March 2011.

(ii) Mr. Zou Xiao Chun was appointed as an executive director with effect from 17 December 2010.

(iii) Ms. Huang Yan Hong was appointed as non-executive director with effect from 17 December 2010.

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(b) Executive directors and non-executive directors *(continued)*

2009	Notes	Fees RMB'000	Salaries, allowances, bonuses and other expense RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Mr. Wong Kwong Yu	*(i)*	–	–	–	–	–
Mr. Chen Xiao		–	2,254	4,402	25	6,681
Mr. Ng Kin Wah		–	740	2,001	11	2,752
Mr. Wang Jun Zhou		–	1,013	4,003	27	5,043
Ms. Wei Qiu Li	*(ii)*	–	966	3,602	27	4,595
Mr. Sun Yi Ding	*(iii)*	–	830	2,602	19	3,451
		–	5,803	16,610	109	22,522
Non-executive directors:						
Mr. Sun Qiang Chang	*(iv)*	809	–	–	–	809
Mr. Zhu Jia	*(v)*	109	–	–	–	109
Ms. Wang Li Hong	*(v)*	109	–	–	–	109
Mr. Ian Andrew Reynolds	*(v)*	109	–	–	–	109
		1,136	5,803	16,610	109	23,658

Notes:

(i) Mr. Wong Kwong Yu ("Mr. Wong") ceased to be a director of the Company on 16 January 2009.

(ii) Ms. Wei Qiu Li was appointed as an executive director with effect from 16 January 2009.

(iii) Mr. Sun Yi Ding was appointed as an executive director with effect from 30 June 2009.

(iv) Mr. Sun Qiang Chang resigned as a director with effect from 23 July 2009.

(v) Mr. Zhu Jia, Ms. Wang Li Hong and Mr. Ian Andrew Reynolds were appointed as non-executive directors with effect from 3 August 2009.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(c) Five highest paid individuals

The five highest paid individuals during the year included four (2009: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2009: one) non-director, highest paid individual for the year are as follows:

	2010	2009
	RMB'000	RMB'000
Salaries, allowances, bonuses and other expense	**2,033**	953
Pension scheme contributions	**29**	27
Equity-settled share option expense	**5,122**	3,175
	7,184	4,155

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2010	2009
HK$4,500,001 to HK$5,000,000 (equivalent to RMB3,918,601 to RMB4,354,000)	**–**	1
HK$8,000,001 to HK$8,500,000 (equivalent to RMB6,966,401 to RMB7,401,800)	**1**	–
	1	1

9. PENSION SCHEMES

All the PRC subsidiaries of the Group are required to participate in the employee retirement benefit schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees' salaries for the years ended 31 December 2010 and 2009.

The Group's contributions to pension schemes for the year ended 31 December 2010 amounted to approximately RMB256,153,000 (2009: RMB241,309,000).

10. INCOME TAX EXPENSE

An analysis of the provision for tax in the financial statements is as follows:

	2010	2009
	RMB'000	RMB'000
Current income tax – PRC	**555,210**	418,120
Deferred income tax *(note 19)*	**(7,332)**	(11,810)
Total tax charge for the year	**547,878**	406,310

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2009: 25%) on their respective taxable income. During the year, 31 entities (2009: 21 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

The Group realised a significant amount of tax benefits during the year through applying the preferential corporate income tax rates and the corporate income tax exemptions. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to assessment by the relevant PRC tax authorities.

No provision for Hong Kong profits tax has been made for the years ended 31 December 2010 and 2009, as the Group had no assessable profits arising in Hong Kong for the respective years.

10. INCOME TAX EXPENSE *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rates, is as follows:

	2010				
	Hong Kong		**PRC**		**Total**
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**
Profit/(loss) before tax	**(491,249)**		**3,000,781**		**2,509,532**
Income tax at the statutory tax rate	**(81,056)**	**16.5**	**750,195**	**25.0**	**669,139**
Tax effect of preferential tax rates	**–**		**(253,791)**		**(253,791)**
Income not subject to tax	**(40,191)**		**–**		**(40,191)**
Expense not deductible for tax	**111,871**		**15,597**		**127,468**
Tax losses utilised from previous years	**–**		**(31,257)**		**(31,257)**
Tax losses not recognised	**9,376**		**67,134**		**76,510**
Tax charge at the Group's effective rate	**–**		**547,878**		**547,878**

	2009				
	Hong Kong		PRC		Total
	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) before tax	(239,935)		2,072,444		1,832,509
Income tax at the statutory tax rate	(39,589)	16.5	518,111	25.0	478,522
Tax effect of preferential tax rates	–		(186,439)		(186,439)
Income not subject to tax	(39,095)		–		(39,095)
Expense not deductible for tax	70,706		30,632		101,338
Tax losses utilised from previous years	–		(20,538)		(20,538)
Tax losses not recognised	7,978		64,544		72,522
Tax charge at the Group's effective rate	–		406,310		406,310

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. At 31 December 2010, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2009: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 15,502,678,000 (2009: 13,721,430,000) in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, fair value gain or loss on the derivative component of the convertible bonds, gain on redemption of the convertible bonds and gain on repurchases of the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2010	2009
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**1,961,654**	1,409,288
Interest on the Old 2014 Convertible Bonds	**53,686**	189,770
Fair value loss/(gain) on the derivative component of the Old 2014 Convertible Bonds	**93,340**	(136,740)
Gain on redemption of the Old 2014 Convertible Bonds	**(202,578)**	–
Gain on repurchases of the Old 2014 Convertible Bonds	**–**	(67,083)
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds	**1,906,102**	1,395,235

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

	Notes	Number of shares 2010 '000	2009 '000
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation		**15,502,678**	13,721,430
Effect of dilution – weighted average number of ordinary shares:			
Warrants		**34,626**	31
Share options	*(i)*	**51,125**	–
Convertible bonds	*(ii)*	**260,715**	944,754
		15,849,144	14,666,215

Notes:

(i) During the year ended 31 December 2009, the average quoted market price of the Company's shares was less than the exercise price of the share options (note 32). Therefore, the share options had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2009 and were therefore ignored in the calculation of diluted earnings per share.

(ii) The 2016 Convertible Bonds and the New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2009 and were therefore not included in the calculation of diluted earnings per share.

The New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2010 and were therefore not included in the calculation of diluted earnings per share.

Therefore, only the effect of the Old 2014 Convertible Bonds was included in the calculation of diluted earnings per share for the year ended 31 December 2009 and 2010.

The Old 2014 Convertible Bonds that were redeemed during the year ended 31 December 2010 were included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. As at 31 December 2010, the Old 2014 Convertible bonds with an aggregate principal amount of RMB149,400,000 remained outstanding (note 30(i)).

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 31 December 2009 and 1 January 2010:						
Cost	3,077,107	946,796	468,128	80,045	21,318	4,593,394
Accumulated depreciation and impairment	(254,503)	(638,465)	(266,184)	(42,292)	–	(1,201,444)
Net carrying amount	2,822,604	308,331	201,944	37,753	21,318	3,391,950
At 1 January 2010, net of accumulated depreciation and impairment	2,822,604	308,331	201,944	37,753	21,318	3,391,950
Additions	–	228,364	214,503	7,214	57,206	507,287
Disposals	–	(2,868)	(13,463)	(702)	–	(17,033)
Depreciation provided during the year	(82,618)	(157,730)	(83,282)	(8,913)	–	(332,543)
Transfers from construction in progress	–	11,983	8,060	–	(20,043)	–
Surplus on revaluation of properties transferred to investment properties	25,204	–	–	–	–	25,204
Transfers to investment properties *(note 13)*	(61,144)	–	–	–	–	(61,144)
Transfers from investment properties *(note 13)*	42,480	–	–	–	–	42,480
Exchange realignment	(24)	(11)	(2)	(1)	–	(38)
At 31 December 2010, net of accumulated depreciation and impairment	2,746,502	388,069	327,760	35,351	58,481	3,556,163
At 31 December 2010:						
Cost	3,078,262	1,179,038	640,955	82,909	58,481	5,039,645
Accumulated depreciation and impairment	(331,760)	(790,969)	(313,195)	(47,558)	–	(1,483,482)
Net carrying amount	2,746,502	388,069	327,760	35,351	58,481	3,556,163

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009						
At 31 December 2008 and 1 January 2009:						
Cost	3,283,662	834,657	452,529	81,837	23,654	4,676,339
Accumulated depreciation and impairment	(190,235)	(517,307)	(215,462)	(33,506)	–	(956,510)
Net carrying amount	3,093,427	317,350	237,067	48,331	23,654	3,719,829
At 1 January 2009, net of accumulated depreciation and impairment	3,093,427	317,350	237,067	48,331	23,654	3,719,829
Additions	232,140	162,981	45,211	2,976	27,936	471,244
Disposals	–	(8,003)	(25,325)	(1,161)	(864)	(35,353)
Depreciation provided during the year	(92,622)	(163,997)	(76,093)	(12,885)	–	(345,597)
Transfers from construction in progress	7,832	–	21,084	492	(29,408)	–
Surplus on revaluation of properties transferred to investment properties	98,253	–	–	–	–	98,253
Deficit on revaluation of properties transferred to investment properties	(81,493)	–	–	–	–	(81,493)
Transfers to investment properties *(note 13)*	(434,933)	–	–	–	–	(434,933)
At 31 December 2009, net of accumulated depreciation and impairment	2,822,604	308,331	201,944	37,753	21,318	3,391,950
At 31 December 2009:						
Cost	3,077,107	946,796	468,128	80,045	21,318	4,593,394
Accumulated depreciation and impairment	(254,503)	(638,465)	(266,184)	(42,292)	–	(1,201,444)
Net carrying amount	2,822,604	308,331	201,944	37,753	21,318	3,391,950

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in the deficit on revaluation of properties transferred to investment properties during the year ended 31 December 2009 of RMB81,493,000 was an amount of RMB73,956,000 attributable to properties located in Beijing which were acquired by the Group in November 2007 from Beijing Centergate Technologies (Holding) Co., Ltd. ("Centergate Technologies"), a related party as further defined in note 36(a) to the financial statements.

Certain of the buildings of the Group in the PRC were pledged as security for bank loans (note 27) and bills payable (note 28) of the Group as at 31 December 2010. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2010 amounted to RMB1,589,660,000 (31 December 2009: RMB1,610,839,000).

As at 31 December 2010, the buildings were situated in mainland China and were held under medium terms.

13. INVESTMENT PROPERTIES

Group

	2010 **RMB'000**	2009 RMB'000
Carrying amount at 1 January	**820,671**	389,473
Transfer from owner-occupied properties *(note 12)*	**61,144**	434,933
Transfer to owner-occupied properties *(note 12)*	**(42,480)**	–
Net loss from a fair value adjustment	**(8,488)**	(3,723)
Exchange realignment	**(236)**	(12)
Carrying amount at 31 December	**830,611**	820,671

Investment properties comprised commercial properties in the PRC that are leased to third parties and an industrial property and a car park in Hong Kong that are leased to a related party (note 36(a)(v)) and a third party, respectively.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Jones Lang LaSalle Sallmanns Limited ("Sallmanns") and B.I. Appraisals Limited, independent firms of professionally qualified valuers, on income capitalisation approach and direct comparison approach, as at 31 December 2010. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.

13. INVESTMENT PROPERTIES *(continued)*

As at 31 December 2010, investment properties of approximately RMB7,234,000 (31 December 2009: RMB7,044,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB823,377,000 (31 December 2009: RMB813,627,000) are located in the PRC under medium term leases.

Certain of the investment properties of the Group in the PRC were pledged as security for bank loans (note 27) and bills payable (note 28) of the Group as at 31 December 2010. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2010 amounted to RMB751,150,000 (31 December 2009: RMB625,197,000).

14. GOODWILL

Group

	Note	**2010** **RMB'000**	2009 RMB'000
At 1 January:			
Cost		**4,024,981**	3,371,012
Accumulated impairment		**(10,000)**	(8,000)
Net carrying amount		**4,014,981**	3,363,012
Cost at 1 January, net of accumulated impairment		**4,014,981**	3,363,012
Acquisition of non-controlling interests	*(i)*	**–**	653,969
		4,014,981	4,016,981
Impairment during the year		**–**	(2,000)
At 31 December		**4,014,981**	4,014,981
At 31 December:			
Cost		**4,024,981**	4,024,981
Accumulated impairment		**(10,000)**	(10,000)
Net carrying amount		**4,014,981**	4,014,981

Note:

(i) The addition during the year ended 31 December 2009 arose from the acquisition of the 10% non-controlling interests in Yongle (China) Electrical Retail Co., Ltd.

14. GOODWILL *(continued)*

Impairment testing of goodwill

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2010	2009
	RMB'000	RMB'000
China Paradise Electronics Retail Limited ("China Paradise")	**3,920,393**	3,920,393
Shaanxi Cellstar Telecommunication Retail Chain Company Limited	**60,428**	60,428
Shenzhen Gome Electrical Appliances Company Limited and Guangzhou Gome Electrical Appliances Company Limited	**22,986**	22,986
Shandong Longji Island Construction Company Limited	**8,000**	8,000
Wuhan Gome Electrical Appliances Company Limited	**7,300**	7,300
Jiangsu Pengrun Gome Electrical Appliance Company Limited and Nanjing Pengze Investment Company Limited	**5,874**	5,874
	4,024,981	4,024,981
Impairment	**(10,000)**	(10,000)
	4,014,981	4,014,981

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the executive directors which cover a period of five years. The pre-tax discount rate applied to the cash flow projections is 12.24% (2009: 12.29%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2009: 3%). This growth rate is below the average growth rates of the retail industry of 6.8% to 21.6% for the past 10 years. The directors of the Company believe that a lower growth rate is more conservative and reliable for the purpose of this impairment testing.

14. GOODWILL *(continued)*

Key assumptions used in the value in use calculations

The following describes the key assumptions of the cash flow projections.

Store revenue:	the bases used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC.
Gross margins:	the gross margins are based on the average gross margin achieved in the past two years.
Expenses:	the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level.
Discount rates:	the discount rates used are before tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group in the current year.

Sensitivity to changes in assumptions

With regard to the assessment of the values in use of the respective cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the respective carrying values, including goodwill, of the cash-generating units to exceed the respective recoverable amounts.

15. OTHER INTANGIBLE ASSETS

Group

	Trademarks RMB'000
31 December 2010	
At 31 December 2009 and 1 January 2010:	
Cost	**154,915**
Accumulated amortisation	**(29,716)**
Net carrying amount	**125,199**
Cost at 1 January 2010, net of accumulated amortisation	**125,199**
Amortisation provided during the year	**(9,042)**
At 31 December 2010	**116,157**
At 31 December 2010:	
Cost	**154,915**
Accumulated amortisation	**(38,758)**
Net carrying amount	**116,157**
31 December 2009	
At 1 January 2009:	
Cost	154,915
Accumulated amortisation	(20,674)
Net carrying amount	134,241
Cost at 1 January 2009, net of accumulated amortisation	134,241
Amortisation provided during the year	(9,042)
At 31 December 2009	125,199
At 31 December 2009 and 1 January 2010:	
Cost	154,915
Accumulated amortisation	(29,716)
Net carrying amount	125,199

Note:

The cost includes the fair value of the trademark arising from the acquisition of Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd. of RMB25,915,000 in 2005 and the fair value of the trademark arising from the acquisition of China Paradise of RMB129,000,000 in 2006, which are amortised on the straight-line basis over the directors' estimate of their useful lives of 10 years and 20 years, respectively.

16. OTHER INVESTMENTS

	2010	2009
	RMB'000	RMB'000
PRC equity investments, at fair value	**127,710**	153,360

The balance as at 31 December 2010 represented the fair value of the Group's investments in 27,000,000 shares, representing approximately 10.7% of the outstanding issued shares, of Sanlian Commercial Co., Ltd. ("Sanlian"). Sanlian is a company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2010 and 2009. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

According to Sanlian's announcement dated 17 May 2010, on 14 May 2010, Sanlian received a "Decision on the Suspension from Trading of the Stocks of Sanlian Shangshe Joint Stock Company" issued by the Shanghai Stock Exchange. Pursuant to this decision, Sanlian's shares were officially suspended from trading since 25 May 2010 as Sanlian had incurred losses for three consecutive years up to 31 December 2009.

Of the seven directors of Sanlian, five were nominated by the Group. With reference to Sanlian's memorandum and articles of association and by taking into account the current shareholding structure of Sanlian, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to it and thus the Group does not have control or significant influence over Sanlian.

As at 31 December 2010, the fair value of these investments is determined by the directors of the Company, based on various sources of information and assumptions, at RMB4.73 per share. As at 31 December 2009, the fair value of these investments was based on quoted market prices of the listed shares, which was RMB5.68 per share.

During the year ended 31 December 2010, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB2,989,000 (2009: RMB4,335,000).

17. PREPAYMENTS FOR ACQUISITION OF PROPERTIES

	2010 RMB'000	2009 RMB'000
Prepayments for acquisition of properties	–	21,129

Note:

The balance represented deposit for acquisition of certain commercial properties in the PRC. Up to 31 December 2010, the commercial properties were not delivered to the Group. In the opinion of the directors, the Group is able to recover the prepayment of RMB21,129,000 and this balance is included in prepayments, deposits and other receivables as set out in note 24.

18. LEASE PREPAYMENTS

Group

	Notes	2010 RMB'000	2009 RMB'000
Prepaid land lease payments	*(i)*	**41,638**	42,815
Rental prepayments	*(ii)*	**346,146**	289,592
		387,784	332,407

Notes:

(i) Prepaid land lease payments

Group

	2010 RMB'000	2009 RMB'000
Carrying amount at 1 January	**42,815**	43,992
Recognised during the year	**(1,177)**	(1,177)
Carrying amount at 31 December	**41,638**	42,815

The leasehold land is held under a medium term lease and is situated in the PRC.

(ii) The balances at 31 December 2010 and 2009 represented the non-current portion of rental prepayments.

Included in rental prepayments as at 31 December 2010 was the long term portion of rental prepayments to Centergate Technologies, a related company as further defined in note 36(a) to the financial statements, of RMB58,953,000 (31 December 2009: RMB65,565,000) (note 36(a)(vi)).

19. DEFERRED TAX

Group

	Note	Balance at 1 January 2010 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in the consolidated statement of comprehensive income RMB'000	Balance at 31 December 2010 RMB'000
Deferred tax assets:					
Tax losses	*(i)*	**8,861**	**5,104**	**–**	**13,965**
Fair value adjustment on investment properties		**1,529**	**3,646**	**–**	**5,175**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**20,373**	**–**	**–**	**20,373**
		30,763	**8,750**	**–**	**39,513**
Deferred tax liabilities:					
Fair value adjustment on acquisition		**68,952**	**–**	**–**	**68,952**
Fair value adjustment on investment properties		**1,808**	**1,418**	**–**	**3,226**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**32,669**	**–**	**6,301**	**38,970**
		103,429	**1,418**	**6,301**	**111,148**

19. DEFERRED TAX *(continued)*

Group *(continued)*

	Note	Balance at 1 January 2009 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in the consolidated statement of comprehensive income RMB'000	Balance at 31 December 2009 RMB'000
Deferred tax assets:					
Tax losses	*(i)*	18,356	(9,495)	–	8,861
Fair value adjustment on investment properties		–	1,529	–	1,529
Fair value adjustment on transfer of owner – occupied properties to investment properties		–	20,373	–	20,373
		18,356	12,407	–	30,763
Deferred tax liabilities:					
Fair value adjustment on acquisition		68,952	–	–	68,952
Fair value adjustment on investment properties		1,211	597	–	1,808
Fair value adjustment on transfer of owner – occupied properties to investment properties		8,106	–	24,563	32,669
		78,269	597	24,563	103,429

Notes:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB326.8 million (2009: RMB270.0 million), that are available indefinitely, and in the PRC of RMB970.5 million (2009: RMB777.5 million), that will expire in one to five years, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

(ii) The deferred tax recognised in the income statement for the year ended 31 December 2010 amounted to RMB7,332,000 (2009: RMB11,810,000).

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China.

20. DESIGNATED LOANS

The designated loan to Huihai

The designated loan ("Huihai Loan") of RMB48 million as at 31 December 2010 represented the aggregate amount of a loan provided to Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai"), a company established by employees of the Group, through Beijing Branch of China Bohai Bank Co., Ltd. The Huihai Loan is to be used by Huihai for the sole purpose of capital injection into Kuba Technology (Beijing) Co., Ltd. ("Kuba") to acquire an 80% equity interest in Kuba which was established by independent third parties on 10 August 2010 in the PRC and mainly engaged in online sales of electrical appliances. The Huihai Loan has a term of five years and bears interest rate at 4.86% per annum, which is determined by reference to the interest rate published by the People's Bank of China.

Pursuant to an equity pledge agreement in January 2011, the equity holder of Huihai pledged the equity interest in Huihai to the Group, as security for the Huihai Loan.

Pursuant to another equity pledge agreement in January 2011, Huihai pledged to the Group the 80% equity interests of Kuba as security for the Huihai Loan.

The designated loan to Beijing Zhansheng

The designated loan of RMB3,600 million as at 31 December 2010 (31 December 2009: RMB3,600 million) represented the aggregate amount of loan provided to Beijing Zhansheng by the Group through the Beijing Branch of Industrial Bank Co., Ltd. The loan had a maturity date on 12 December 2009 and the interest rate of 5.103% per annum. On 15 December 2009, the designated loan was renewed to 14 December 2011 with an interest rate of 4.86% per annum.

The designated loan is secured by (i) the pledge of the entire registered share capital of Dazhong Appliances (including any dividends and other interests arising in relation to the relevant share capital) and (ii) the pledge of the entire registered share capital of Beijing Zhansheng (including any dividends and other interests arising in relation to the relevant share capital) in favour of the Group.

In addition, pursuant to an option agreement dated 14 December 2007 and the renewed option agreement dated 15 December 2009, Beijing Zhansheng irrevocably granted the Group an option (the "Purchase Option on Dazhong"), on an exclusive basis, for the Group or any party(ies) designated by the Group to acquire all or part of the registered share capital of Dazhong Appliances held by Beijing Zhansheng, subject to the approval from the PRC government authorities and other terms and conditions of the option agreement.

As at the date of the consolidated financial statements, the board of directors of the Company is considering to exercise the Purchase Option on Dazhong in the near future.

21. INVESTMENTS IN SUBSIDIARIES

Company

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**5,389,635**	5,389,635
Amounts due from subsidiaries	**4,800,245**	3,355,781
	10,189,880	8,745,416
Impairment	**(46,925)**	(46,925)
	10,142,955	8,698,491

The balances with subsidiaries are interest-free, unsecured and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Capital Automation (BVI) Limited	British Virgin Islands/ Hong Kong	US$50,000	100	–	Investment holding
Grand Hope Investment Limited	British Virgin Islands/ Hong Kong	US$1 million	100	–	Investment holding
China Paradise Electronics Retail Limited *(viii)*	Cayman Islands	HK$235,662,979	100	–	Investment holding
Hong Kong Punching Centre Limited *(viii)*	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc.	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Gome Appliance Company Limited *(ix)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Tianjin Gome Electrical Appliance Company Limited *(i)* 天津國美電器有限公司	PRC	RMB40 million	–	100	*Note (iii)*
Tianjin Gome Logistics Company Limited *(i)* 天津國美物流有限公司	PRC	RMB18 million	–	100	*Note (iv)*
Chongqing Gome Electrical Appliance Company Limited *(i)* 重慶國美電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Chengdu Gome Electrical Appliance Company Limited *(i)* 成都國美電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Xi'an Gome Electrical Appliance Company Limited *(i)* 西安國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Kunming Gome Electrical Appliance Company Limited *(i)* 昆明國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shenzhen Gome Electrical Appliance Company Limited *(i)* 深圳國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Fuzhou Gome Electrical Appliance Company Limited *(i)* 福州國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Guangzhou Gome Electrical Appliance Company Limited *(i)* 廣州市國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wuhan Gome Electrical Appliance Company Limited *(i)* 武漢國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shenyang Gome Electrical Appliance Company Limited *(i)* 瀋陽國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Jinan Gome Electrical Appliance Company Limited *(i)* 濟南國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Qingdao Gome Electrical Appliance Company Limited *(i)* 青島國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Tianjin Gome Commercial Consultancy Company Limited *(i)* 天津國美商業管理諮詢有限公司	PRC	RMB3 million	–	100	*Note (v)*
Kunming Gome Logistics Company Limited *(i)* 昆明國美物流有限公司	PRC	RMB8 million	–	100	*Note (iv)*
Quanzhou Pengrun Gome Electrical Appliance Company Limited *(i)* 泉州鵬潤國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited *(i)* 常州金太陽至尊電器有限公司	PRC	RMB50 million	–	100	*Note (iii)*
Gansu Gome Electrical Appliance Company Limited *(i)* 甘肅國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Beijing Pengze Real Estate Company Limited *(i)* 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenyang Pengrun Gome Electrical Appliance Company Limited *(i)* 瀋陽鵬潤國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Kunming Qin'an Commercial Management Consultancy Company Limited *(i)* 昆明勤安商業管理諮詢有限公司	PRC	RMB6 million	–	100	*Note (v)*
Jiangsu Pengrun Gome Electrical Appliance Company Limited *(i)* 江蘇鵬潤國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Eagle Electrical Appliance Company Limited *(i)* 鵬潤電器有限公司	PRC	RMB100 million	–	100	Investment holding
Shenzhen eHome Commercial Chain Company Limited *(i)* 深圳易好家商業連鎖有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Gansu Gome Logistics Company Limited *(i)* 甘肅國美物流有限公司	PRC	RMB10 million	–	100	*Note (iv)*
Nanjing Pengze Investment Company Limited *(i)* 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding
Yongle (China) Electronics Retail Company Limited *(ii)* 永樂(中國)電器銷售有限公司	PRC	RMB220 million	–	100	*Note (iii)*
Guangdong Yongle Electronics Retail Company Limited *(i)* 廣東永樂家用電器有限公司	PRC	RMB30 million	–	100	*Note (iii)*

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Henan Yongle Electronics Retail Company Limited *(i)* 河南永樂生活電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Jiangsu Yongle Electronics Retail Company Limited *(i)* 江蘇永樂家用電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shanghai Yongle Communication Equipment Company Limited *(i)* 上海永樂通訊設備有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Sichuan Yongle Electronics Retail Company Limited *(i)* 四川永樂家用電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Xiamen Yongle Siwen Electronics Retail Company Limited *(i)* 廈門永樂思文家電有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Zhejiang Yongle Electronics Retail Company Limited *(i)* 浙江永樂家用電器有限公司	PRC	RMB15 million	–	100	*Note (iii)*
Shaanxi Yongle • Dazhong Electronics Retail Co., Ltd. *(i)* 陝西永樂•大中生活電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shaanxi Cellstar Telecommunication Retail Chain Company Limited *(i)* 陝西蜂星電訊零售連鎖有限責任公司	PRC	RMB10 million	–	100	*Note (vii)*
Shandong Longji Island Construction Company Limited *(i)* 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Suzhou Jiayue Trading Company Limited *(i) (ix)* 蘇州嘉悅商貿有限公司	PRC	US$49.9 million	–	100	*Note (iv)*
Xuzhou Pengze Trading Company Limited *(i) (ix)* 徐州鵬澤商貿有限公司	PRC	US$99 million	–	100	*Note (iv)*
Xinjiang Hongsheng Logistics Company Limited *(i) (ix)* 新疆鴻盛物流有限公司	PRC	US$50 million	–	100	*Note (iv)*
Tianjin Pengze Logistics Company Limited *(i) (ix)* 天津鵬澤物流有限公司	PRC	US$50 million	–	100	*Note (iv)*

Notes:

(i) Registered as private companies with limited liability under the PRC law

(ii) Registered as Sino-foreign equity joint ventures under the PRC law

(iii) Retailing of electrical appliances and consumer electronic products

(iv) Provision of logistics services

(v) Provision of business management services

(vi) Investment holding and retailing of electrical appliances and consumer electronic products

(vii) Retailing of mobile phones and accessories

(viii) Audited by Ernst & Young, Hong Kong

(ix) Registered as wholly-foreign-owned enterprises under the PRC law. The respective registered capital of these subsidiaries has been fully paid up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INVENTORIES

Group

	2010 RMB'000	2009 RMB'000
Merchandise for resale	**7,990,540**	6,439,237
Consumables	**94,431**	93,216
	8,084,971	6,532,453

As at 31 December 2010, the Group's inventories amounting to RMB500 million (31 December 2009: RMB500 million) were pledged as security for the Group's bank loans (note 27) and bills payable (note 28).

23. TRADE AND BILLS RECEIVABLES

All of the Group's sales are on a cash basis except for certain bulk sales of merchandise which are credit sales. The credit term offered to customers is generally one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Management considers that there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date of the trade and bills receivables, is as follows:

Group

	2010 RMB'000	2009 RMB'000
Outstanding balances, aged:		
Within 3 months	**204,240**	50,419
3 to 6 months	**1,489**	3,071
6 months to 1 year	**284**	273
Over 1 year	**89**	436
	206,102	54,199

The balance at 31 December 2010 included the trade receivables from Dazhong Appliances of RMB118,223,000 (2009: Nil). During the year, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB1,430,654,000 (2009: RMB76,375,000).

23. TRADE AND BILLS RECEIVABLES *(continued)*

The aged analysis of trade and bills receivables that are not considered to be impaired is as follows:

Group

	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**197,356**	49,582
Less than 3 months past due	**6,884**	837
Over 3 months past due	**1,862**	3,780
	206,102	54,199

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to mainly corporate customers which have long business relationship with the Group. The directors are of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in credit quality of the individual debtors and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The balances are unsecured, non-interest-bearing and are repayable on demand.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

		2010	2009
	Notes	**RMB'000**	RMB'000
Prepayments	*(i)*	**442,914**	384,398
Advances to suppliers		**586,027**	457,567
Other deposits and receivables		**1,106,263**	630,886
Receivables from Wuhan Yinhe	*(ii)*	**166,586**	166,586
Prepayments for acquisition of properties	*17*	**21,129**	–
Management fees receivable from Dazhong Appliances	*(iii)*	**123,132**	61,555
Interest income receivable from Beijing Zhansheng		**–**	892
		2,446,051	1,701,884

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Company

	2010	2009
	RMB'000	RMB'000
Prepayments	**4,573**	11,952
Other receivables	**507**	9,238
	5,080	21,190

Notes:

(i) The balance includes the current portion of the rental prepayments to Centergate Technologies amounting to RMB6,612,000 as at 31 December 2010 (31 December 2009: RMB6,612,000) (note 36(a)(vi)).

(ii) On 13 July 2008, the Group entered into a sale and purchase agreement with Wuhan Yinhe Property Co., Ltd. ("Wuhan Yinhe"), an independent third party vendor, to acquire the first to the fourth floors of a commercial property located in Wuhan, the PRC, at a total cash consideration of RMB214,629,000. Pursuant to the agreement, the Group paid an amount of RMB107,315,000, representing 50% of the total purchase consideration, to the vendor in 2008 and the remaining balance was payable upon the completion and handover of the property.

Due to the default of the vendor to fulfil its obligation under the sale and purchase agreement, on 6 July 2009, the Group applied to the Hubei Provincial People's High Court (the "Hubei Court") to freeze the assets of Wuhan Yinhe up to an amount of RMB135,808,000. On 21 July 2009, the court granted an injunction and froze the first, the second and the fourth floors of the property. In July 2010, the Group applied to the Hubei Court to freeze the third floor of the property and the Hubei Court granted an injunction on 23 July 2010.

On 30 July 2009, the Group filed a civil complaint against Wuhan Yinhe with the Hubei Court. On 25 November 2009, the Intermediate People's Court of Huanggang City, Hubei Province, issued the civil judgement and ordered: (i) the sale and purchase agreement and its supplementary agreement are void; (ii) Wuhan Yinhe shall refund the consideration paid by the Group of RMB107,315,000 to the Group; (iii) Wuhan Yinhe shall pay interest of RMB5,638,000 and damages of RMB38,633,000 to the Group; and (iv) Wuhan Yinhe shall pay other damages to the Group in the amount of RMB15,000,000. Wuhan Yinhe did not raise any appeal within the time limit. The directors of the Company have consulted the Group's PRC legal advisers and consider that the decision is final and binding. The aggregate amount of the compensation in items (iii) and (iv) above of approximately RMB59,271,000 has been recognised as income in the Group's income statement for the year ended 31 December 2009.

Up to the date of the consolidated financial statements, the Group has not yet to receive the above repayment and compensation amounting to RMB166,586,000. In February 2010, the Group applied for enforcement of the court decision and the frozen properties are in the process of auction.

For the purpose of assessment of asset impairment in preparation of these financial statements, the Group has engaged Sallmanns to determine the market value of the frozen property. The market value of the relevant property as at 31 December 2010 was RMB233,179,000, based on an open market approach, pursuant to the valuation report.

(iii) In the opinion of the directors, the management fees receivable from Dazhong Appliances will be settled before 30 June 2011.

25. DUE FROM/TO RELATED PARTIES

Group

	Notes	2010 RMB'000	2009 RMB'000
Due from related parties			
Receivables from the Non-listed GOME Group	*(i)*	**246,607**	156,912
Others		**4,683**	234
		251,290	157,146
Due to related parties			
Payables to the Non-listed GOME Group	*(ii)*	**97,826**	–

Notes:

(i) The balance mainly represented the management fee and trade receivables due from the Non-listed GOME Group (note 36(a)(ii)). The aforesaid balance is interest-free, unsecured and has been fully settled subsequent to the end of the reporting period.

(ii) The balance represented rental expenses and other expenses payable to the Non-listed GOME Group (note 36(a)(iii)).

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**5,716,500**	5,492,859
Time deposits	**6,784,080**	9,332,544
	12,500,580	14,825,403
Less: Pledged time deposits:		
Pledged for bills payable	**(6,268,130)**	(6,189,973)
Pledged for bank acceptance credit	**–**	(2,606,371)
	(6,268,130)	(8,796,344)
Cash and cash equivalents	**6,232,450**	6,029,059

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

Company

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**1,037,381**	1,382,575
Time deposits	**515,950**	3,142,571
	1,553,331	4,525,146
Less: Time deposits pledged for bank acceptance credit	**–**	(2,606,371)
Cash and cash equivalents	**1,553,331**	1,918,775

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

Group

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**5,716,500**	5,492,859
Short term deposits, non-pledged	**515,950**	536,200
Cash and cash equivalents	**6,232,450**	6,029,059

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB12,086,775,000 (31 December 2009: RMB10,198,403,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank balances of the Group and the Company earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group and the Company are made for varying periods of between one day and one year, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

27. INTEREST-BEARING BANK LOANS

Group

	2010 RMB'000	2009 RMB'000
PRC bank loans – secured, within one year	**100,000**	350,000

The Group's bank loans are all denominated in RMB and bear interest at a rate of 5.31% per annum (2009: 4.86% to 5.841%).

The Group's bank loans are secured by guarantees and pledges as set out in note 28 below.

The carrying amounts of the Group's bank loans approximate to their fair values.

28. TRADE AND BILLS PAYABLES

Group

	2010 RMB'000	2009 RMB'000
Trade payables	**5,757,564**	4,159,579
Bills payable	**11,142,119**	11,655,682
	16,899,683	15,815,261

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the goods receipt date, is as below:

	2010 RMB'000	2009 RMB'000
Within 3 months	**8,163,552**	9,617,687
3 to 6 months	**8,443,194**	5,921,009
Over 6 months	**292,937**	276,565
	16,899,683	15,815,261

28. TRADE AND BILLS PAYABLES *(continued)*

The Group's bills payable and PRC bank loans (note 27) above are secured by:

(i) the pledge of the Group's time deposits (note 26);

(ii) the pledge of certain of the Group's inventories (note 22);

(iii) the pledge of certain of the Group's buildings (note 12);

(iv) the pledge of certain of the Group's investment properties (note 13); and

(v) the corporate guarantees provided by the Non-listed GOME Group (note 36(a)(iv)).

The trade and bills payables are non-interest-bearing and are normally settled on terms of one to six months.

29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	Notes	**2010** **RMB'000**	2009 RMB'000
Customers' deposits		**765,408**	649,710
Consideration payable for the acquisition of subsidiaries	*(i)*	**7,240**	7,240
Provision for coupon liabilities	*(ii)*	**88,268**	61,619
Other payables and accruals		**959,083**	1,110,945
		1,819,999	1,829,514

Notes:

(i) The balances as at 31 December 2010 and 2009 represented outstanding purchase considerations for the business combination transactions.

29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS *(continued)*

(ii) A reconciliation of the provision for coupon liabilities is as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	**61,619**	78,619
Arising during the year	**105,967**	95,500
Revenue recognised on utilised points	**(66,956)**	(73,140)
Revenue recognised on expired points	**(12,362)**	(39,360)
At 31 December	**88,268**	61,619

30. CONVERTIBLE BONDS

	Notes	2010 RMB'000	2009 RMB'000
Liability components:			
Old 2014 Convertible Bonds	*(i)*	**129,976**	2,281,046
2016 Convertible Bonds	*(ii)*	**–**	1,502,733
New 2014 Convertible Bonds	*(iii)*	**1,814,069**	1,672,176
		1,944,045	5,455,955
Derivative component:			
Old 2014 Convertible Bonds	*(i)*	**(7,349)**	(100,689)
		1,936,696	5,355,266
Classified as current liabilities		**(122,627)**	(2,180,357)
Non-current liabilities		**1,814,069**	3,174,909

(i) RMB denominated United States dollar ("USD") settled zero coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds")

On 11 May 2007, the Company issued RMB denominated USD settled zero coupon convertible bonds due in 2014 in an aggregate principal amount of RMB4,600 million.

Pursuant to the bond subscription agreement, the Old 2014 Convertible Bonds are:

(a) convertible at the option of the bondholders into fully paid ordinary shares at anytime from 18 May 2008 to 11 May 2014 at a conversion price of HK$19.95 (at a fixed exchange rate of RMB0.9823 to HK$1.00) per share;

30. CONVERTIBLE BONDS *(continued)*

(i) RMB denominated USD settled zero coupon convertible bonds due in 2014 *(continued)*

(b) redeemable at the option of the bondholders on 18 May 2010, being the third anniversary of the issue date, in a USD amount equivalent to their RMB principal amount multiplied by 102.27% and on 18 May 2012, being the fifth anniversary of the issue date, in a USD amount equivalent to their RMB principal amount multiplied by 103.81%; and

(c) redeemable at the option of the Company at anytime after 18 May 2010 and prior to 18 May 2014 in all or some only of the bonds for the time being outstanding at a USD amount equivalent to their early redemption amount as at the date fixed for redemption, provided that the prices of the Company's shares for each of 20 consecutive trading days are over 130% of the early redemption price.

The Old 2014 Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (a) its principal amount outstanding; (b) the interest accrued; and (c) a premium calculated at 5.38% of the principal amount. The settlement of the convertible bonds will be in USD using the spot rate prevailing at the date of the transaction.

The conversion price of the Old 2014 Convertible Bonds was HK$4.46 per share as at 31 December 2009 and 2010. No adjustment was made to the conversion price during the year ended 31 December 2010.

On 18 May 2010, the Company redeemed part of the Old 2014 Convertible Bonds with an aggregate principal amount of RMB2,625,900,000 pursuant to redemption notices received from the bondholders in accordance with the terms and conditions of the Old 2014 Convertible Bonds. The bonds redeemed were cancelled. The consideration for the redemption was allocated to the liability component, the derivative component and the equity component of the Old 2014 Convertible Bonds at the date of the redemption. The method used in allocating the consideration paid to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the Old 2014 Convertible Bonds were issued. The Company determined the fair value of the liability component at the date of the redemption based on the valuations performed by Sallmanns using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the derivative component was determined based on the valuations performed by Sallmanns using an option pricing model. The amount of redemption gain which related to the liability component amounting to RMB202,578,000 was recognised in profit or loss and the amount of consideration which related to the equity component of RMB683,330,000 was recognised in equity.

As at 31 December 2010, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding.

30. CONVERTIBLE BONDS *(continued)*

(i) RMB denominated USD settled zero coupon convertible bonds due in 2014 *(continued)*

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for 2009 and 2010 are as follows:

	Liability component of convertible bonds RMB'000	Derivative component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
At 1 January 2009	3,571,833	(2,280)	1,415,770	4,985,323
Interest expenses	189,770	–	–	189,770
Fair value adjustment	–	(136,740)	–	(136,740)
Repurchases of bonds	(1,480,557)	38,331	(444,957)	(1,887,183)
At 31 December 2009	**2,281,046**	**(100,689)**	**970,813**	**3,151,170**
Interest expenses	**53,686**	**–**	**–**	**53,686**
Fair value adjustment	**–**	**93,340**	**–**	**93,340**
Redemption of bonds	**(2,204,756)**	**–**	**(683,330)**	**(2,888,086)**
At 31 December 2010	**129,976**	**(7,349)**	**287,483**	**410,110**

The fair values of the derivative component were determined based on the valuations performed by Sallmanns using the applicable option pricing model.

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the "2016 Convertible Bonds")

On 3 August 2009, the Company issued RMB denominated USD settled 5% coupon convertible bonds due in 2016 in an aggregate principal amount of RMB1,590 million to Bain Capital Glory Limited.

30. CONVERTIBLE BONDS *(continued)*

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 *(continued)*

Pursuant to the terms of the agreement, the 2016 Convertible Bonds are:

(a) convertible at the option of the bondholder, at anytime during the period commencing 30 days after the issue date and ending on the close of business on 3 August 2016, both dates inclusive, in whole, or in any part, of the outstanding principal amount of the bonds into fully-paid shares (at a fixed exchange rate of RMB0.88 to HK$1.00), at a conversion price of HK$1.108 per share;

(b) redeemable at the option of the bondholder on or at anytime after the fifth anniversary of the issue date and prior to the bond maturity date in a USD amount equivalent to the principal amount of the bond multiplied by 1.12^n, where "n" equals the number of days from the issue date until the early redemption date (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the early redemption date; and

(c) redeemable at the option of the bondholder upon the occurrence of a specified event or any of the events default at the USD equivalent of the higher of: (A) the amount equal to 1.5 times the principal amount of the said bond (or, if the maximum amount permitted by applicable law is lower, then such maximum amount permitted by applicable law); and (B) the principal amount of the said bond multiplied by 1.25^n, where "n" equals the number of days from the issue date until the date of redemption (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the date of redemption.

The Company shall on 3 August 2016, the bond maturity date, redeem in USD all the bonds then outstanding at the USD equivalent of the principal amount of each bond multiplied by 1.12^n, where "n" equals the number of days from the issue date until the bond maturity date (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the bond maturity date.

Based on the terms and conditions of the 2016 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fairly valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by independent professional valuers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve at inception.

30. CONVERTIBLE BONDS *(continued)*

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 *(continued)*

On 15 September 2010, the Company announced that it received a conversion notice from the bondholder to convert the 2016 Convertible Bonds in full into 1,630,702,330 conversion shares at the conversion price of HK$1.108 per conversion share in accordance with the terms of the convertible bonds. The 2016 Convertible Bonds had been recognised as liability and interest was accrued at 5% per annum. Upon conversion, the liability component of the 2016 Convertible Bonds of RMB1,576,448,000 and the equity component of RMB137,411,000 were transferred to equity.

The movements of the liability component and equity component of the 2016 Convertible Bonds for 2009 and 2010 are as follows:

	Liability component of convertible bonds RMB'000	**Equity component of convertible bonds RMB'000**	**Total RMB'000**
Principal amount of convertible bonds issued	1,449,240	140,760	1,590,000
Transaction costs	(34,486)	(3,349)	(37,835)
Interest expenses	87,979	–	87,979
At 31 December 2009	**1,502,733**	**137,411**	**1,640,144**
Interest expenses	**164,257**	**–**	**164,257**
Interest paid	**(90,542)**	**–**	**(90,542)**
Conversion of bonds	**(1,576,448)**	**(137,411)**	**(1,713,859)**
At 31 December 2010	**–**	**–**	**–**

30. CONVERTIBLE BONDS *(continued)*

(iii) RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the "New 2014 Convertible Bonds")

On 23 September 2009 and 25 September 2009, the Company issued RMB denominated USD settled 3% coupon convertible bonds due in 2014 with an aggregate principal amount of RMB2,357.2 million.

Pursuant to the bond subscription agreement, the New 2014 Convertible Bonds are:

(a) convertible at the option of the bondholders on or after 5 November 2009 up to the 10th day prior to 25 September 2014 at a conversion price of HK$2.8380 (at the fixed rate of HK$1.1351 to RMB1.00) per share;

(b) redeemable at the option of the bondholders in all or some only of the bonds on 25 September 2012 at a USD amount equivalent to 103.634% of their RMB principal amount together with interest accrued to the date fixed for redemption; and

(c) redeemable at the option of the Company at anytime after 25 September 2012 in all, but not some, only of the bonds for the time being outstanding at a USD amount equivalent to their early redemption amount as at the date fixed for redemption together with interest accrued to the date fixed for redemption, provided that the closing prices of the Company's shares for 30 consecutive trading days prior to the date upon which notice of such redemption is published are at least 130% of the early redemption amount of a bond divided by the conversion ratio.

30. CONVERTIBLE BONDS *(continued)*

(iii) RMB denominated USD settled 3% coupon convertible bonds due in 2014 *(continued)*

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the terms and conditions of the New 2014 Convertible Bonds, each bond will be redeemed at a USD amount equivalent of 106.318% of its RMB principal amount together with unpaid accrued interest thereon on 25 September 2014, the bond maturity date.

Based on the terms and conditions of the New 2014 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fairly valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by independent professional valuers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve as at inception.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The value of the equity component is not remeasured in subsequent years.

The movements of the liability component and equity component of the New 2014 Convertible Bonds for 2009 and 2010 are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
Principal amount of convertible bonds issued	1,653,610	703,590	2,357,200
Transaction costs	(36,590)	(15,569)	(52,159)
Interest expenses	55,156	–	55,156
At 31 December 2009	**1,672,176**	**688,021**	**2,360,197**
Interest expenses	**212,609**	**–**	**212,609**
Interest paid	**(70,716)**	**–**	**(70,716)**
At 31 December 2010	**1,814,069**	**688,021**	**2,502,090**

31. ISSUED CAPITAL

	Number of shares '000	HK$'000	Equivalent to RMB'000
Authorised:			
Ordinary shares of HK$0.025 each at 1 January 2010 and 31 December 2010	**200,000,000**	**5,000,000**	**5,300,000**
Issued and fully paid:			
Ordinary shares of HK$0.025 each at 1 January 2009	12,758,756	318,970	331,791
Issue of shares *(note (i))*	2,296,576	57,414	50,617
Ordinary shares of HK$0.025 each at 31 December 2009 and 1 January 2010	**15,055,332**	**376,384**	**382,408**
2016 Convertible Bonds conversed *(note (ii))*	**1,630,702**	**40,767**	**35,178**
Share options exercised *(note (iii))*	**3,726**	**93**	**80**
Ordinary shares of HK$0.025 each at 31 December 2010	**16,689,760**	**417,244**	**417,666**

Notes:

(i) On 22 June 2009, the Company announced an open offer (the "Open Offer") of not less than 2,296,576,044 open offer shares and not more than 2,484,657,375 open offer shares at the subscription price of HK$0.672 per open offer share on the basis of 18 open offer shares for every 100 existing shares held by the qualifying shareholders on the record date and payable in full on application. Upon the completion of the Open Offer on 31 July 2009, 2,296,576,044 shares of the Company have been issued and fully paid, 816,321,278 shares of which are subscribed by Mr. Wong and his associates. The aggregate amount of proceeds from the open offer shares was, before expenses, HK$1,543,299,000 (equivalent to RMB1,360,573,000). The net proceeds from the open offer shares amounted to approximately RMB1,284,899,000.

(ii) On 15 September 2010, the Company announced that it received a conversion notice from the bondholder to convert the 2016 Convertible Bonds in full into 1,630,702,330 conversion shares at the conversion price of HK$1.108 per conversion share in accordance with the terms of the convertible bonds. Upon conversion, the issued share capital of the Company would increase from 15,055,331,848 shares to 16,686,034,178 shares. Upon conversion, the liability component of the 2016 Convertible Bonds of RMB1,576,448,000 and the equity component of the 2016 Convertible Bonds of RMB137,411,000 were transferred to issued capital of RMB35,178,000 and share premium account of RMB1,678,681,000.

(iii) The subscription rights attaching to 3,726,000 share options were exercised at the subscription price of HK$1.9 per share (note 32), resulting in the issue of 3,726,000 shares of HK$0.025 each for a total cash consideration, before expenses, of HK$7,079,000 (equivalent to approximately RMB6,067,000). An amount of RMB2,192,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 15 April 2005 ("the Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees, executives and officers of the Company (including executive and non-executive directors of the Company) or any of the subsidiaries and business consultants, business partners, suppliers, customers, agents, financial or legal advisers, debtors and creditors who the board of directors of the Company considers, in its sole discretion, will contribute or have contributed to the Company or any of the subsidiaries.

The Scheme shall be valid and effective for the period (the "Scheme Period") commencing on the Adoption Date and ending on the day immediately preceding the tenth anniversary of the Adoption Date (both dates inclusive). The options granted prior to the end of the Scheme Period but not yet exercised shall continue to be valid and exercisable in accordance with the Scheme.

The maximum number of shares in respect of which options may be granted under the Scheme to any eligible participant shall not, in any 12-month period up to the offer date, exceed 1% of the number of shares of the Company in issue on the offer date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director of the Company who is the relevant eligible participant). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at anytime or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and in any event such period of time shall not exceed a period of ten years commencing on the commencement date, being the date upon which the option is deemed to be granted and accepted.

The exercise price in relation to each option offered shall be determined by the board of directors of the Company in its absolute discretion but in any event must not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the stock exchange on the offer date; (b) the average of the official closing price of the shares as stated in the daily quotation sheets of the stock exchange for the five business days immediately preceding the offer date; and (c) the nominal value of a share of the Company.

Share options do not confer right on the holders to dividends or to vote at shareholders' meetings.

32. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year:

	2010 Weighted average exercise price HK$ per share	**2010** Number of options '000	2009 Weighted average exercise price HK$ per share	2009 Number of options '000
At 1 January	**1.90**	**374,700**	–	–
Granted during the year *(note (i))*	**–**	**–**	1.90	383,000
Exercised during the year *(note (ii))*	**1.90**	**(3,726)**	–	–
Forfeited during the year	**1.90**	**(20,000)**	1.90	(8,300)
At 31 December	**1.90**	**350,974**	1.90	374,700

Notes:

(i) Out of the 383,000,000 share options, 125,500,000 share options have been granted to the directors of the Group and 257,500,000 share options have been granted to the employees of the Group.

(ii) The weighted average share price at the date of exercise for share options exercised during the year was HK$3.12 per share (2009: no share options were exercised).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
86,449	**1.90**	**7 July 2010 to 6 July 2019**
88,175	**1.90**	**7 July 2011 to 6 July 2019**
88,175	**1.90**	**7 July 2012 to 6 July 2019**
88,175	**1.90**	**7 July 2013 to 6 July 2019**

32. SHARE OPTION SCHEME *(continued)*

2009 Number of options '000	Exercise price* HK$ per share	Exercise period
93,500	1.90	7 July 2010 to 6 July 2019
93,500	1.90	7 July 2011 to 6 July 2019
93,500	1.90	7 July 2012 to 6 July 2019
93,500	1.90	7 July 2013 to 6 July 2019

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year ended 31 December 2009 was RMB296,448,000 (RMB0.77 each) of which the Group recognised a share option expense of RMB70,533,000 during the year ended 31 December 2009.

No share option was granted during the year ended 31 December 2010.

The fair value of equity-settled share options granted during the year ended 31 December 2009 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2009
Stock price as at grant date	HK$1.9
Expected volatility	63%
Historical volatility	63%
Risk-free interest rate	2.565%
Dividend yield	1.2%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the option was incorporated into the measurement of fair value.

The Group recognised a share option expense of RMB93,803,000 during the year ended 31 December 2010 (2009: RMB70,533,000).

The 3,726,000 share options exercised during the year resulted in the issue of 3,726,000 ordinary shares of the Company and new share capital of HK$93,000 (equivalent to approximately RMB80,000) and share premium of HK$9,543,000 (equivalent to approximately RMB8,179,000) (before issue expenses), as further detailed in note 31 to the financial statements.

32. SHARE OPTION SCHEME *(continued)*

At the end of the reporting period, the Company had 350,974,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 350,974,000 additional ordinary shares of the Company and additional share capital of HK$8,774,000 (equivalent to approximately RMB7,467,000) and share premium of HK$658,076,000 (equivalent to approximately RMB560,023,000) (before issue expenses).

At the date of approval of the consolidated financial statements, the Company had 329,232,000 share options outstanding under the Scheme, which represented approximately 2.0% of the Company's shares in issue as at that date.

33. RESERVES

(a) Group

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity of the financial statements.

Statutory reserves
Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profits after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserves funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of the PRC domestic companies is required to transfer 10% of the profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of its registered capital of these companies. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

33. RESERVES *(continued)*

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000 *Note (ii)*	Capital reserve RMB'000	Share option reserve RMB'000 *Note (iii)*	Exchange fluctuation reserve RMB'000	Retained earnings/ accumulated losses RMB'000 *Note (i)*	Total RMB'000
At 1 January 2009		6,206,505	42,849	(216,966)	–	(49,695)	10,346	5,993,039
Total comprehensive loss for the year		–	–	–	–	–	(226,962)	(226,962)
Issue of shares		1,234,282	–	–	–	–	–	1,234,282
Repurchases of the Old 2014 Convertible Bonds	*30(i)*	–	–	(444,957)	–	–	–	(444,957)
Issue of the 2016 Convertible Bonds	*30(ii)*	–	–	137,411	–	–	–	137,411
Issue of the New 2014 Convertible Bonds	*30(iii)*	–	–	688,021	–	–	–	688,021
Equity-settled share option arrangements	32	–	–	–	70,533	–	–	70,533
At 31 December 2009 and 1 January 2010		**7,440,787**	**42,849**	**163,509**	**70,533**	**(49,695)**	**(216,616)**	**7,451,367**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**934,829**	**934,829**
Redemption of the Old 2014 Convertible Bonds	*30(i)*	**–**	**–**	**(683,330)**	**–**	**–**	**–**	**(683,330)**
Conversion of the 2016 Convertible Bonds	*30(ii)*	**1,678,681**	**–**	**(137,411)**	**–**	**–**	**–**	**1,541,270**
Exercise of share options	32	**8,179**	**–**	**–**	**(2,192)**	**–**	**–**	**5,987**
Equity-settled share option arrangements	32	**–**	**–**	**–**	**93,803**	**–**	**–**	**93,803**
Proposed final 2010 dividend	34	**–**	**–**	**–**	**–**	**–**	**(582,275)**	**(582,275)**
At 31 December 2010		**9,127,647**	**42,849**	**(657,232)**	**162,144**	**(49,695)**	**135,938**	**8,761,651**

33. RESERVES *(continued)*

(b) Company *(continued)*

Notes:

(i) The income attributable to owners of the parent for the year ended 31 December 2010 dealt with in the financial statements of the Company was approximately RMB934,829,000 (2009: loss of RMB226,962,000).

(ii) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the group level, the contributed surplus is reclassified into various components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) it is, or after the payment would be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

(iii) The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to income statement should the related options expire or be forfeited.

34. DIVIDENDS

	2010	2009
	RMB'000	RMB'000
Interim: Nil (2009: Nil)	**–**	–
Proposed final: HK$4.1 cents (equivalent to RMB3.5 fen) (2009: Nil) per ordinary share	**582,275**	–
	582,275	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

35. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These leases have an average terms of between 1 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

As at the end of the reporting period, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	RMB'000	RMB'000
Within one year	**2,243,678**	1,788,597
In the second to fifth years, inclusive	**6,964,026**	5,659,127
After five years	**3,690,091**	2,928,621
	12,897,795	10,376,345

As defined under IAS 17, a non-cancellable lease is a lease that is cancellable only (a) upon the occurrence of some remote contingencies; (b) with the permission of the lessor; (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Pursuant to the relevant lease agreements, upon the payment of early termination compensation rental which in general ranges from one month to one year, the Group is entitled to terminate the underlying lease agreement if a store will not be in a position to continue its business because of the losses or other circumstances as specified under the rental agreements.

As lessor

The Group has leased its investment properties (note 13) and entered into commercial property sub-leases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms of between 1 and 14 years. A majority of the Group's leases include a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions.

35. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(continued)*

(a) Operating lease arrangements *(continued)*

As lessor *(continued)*

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2010	2009
	RMB'000	RMB'000
Within one year	**193,513**	166,564
In the second to fifth years, inclusive	**544,309**	506,847
After five years	**315,666**	327,831
	1,053,488	1,001,242

(b) Capital commitments

In addition to the operating lease commitments above, the Group had the following capital commitments at the end of the reporting period:

	2010	2009
	RMB'000	RMB'000
Contracted, but not provided for:		
Acquisition of buildings	**118,571**	118,571
Construction of the SAP ERP Project	**58,788**	–
	177,359	118,571

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in notes 18, 20, 24, 25 and 31 to these financial statements, the Group had the following significant transactions with the related parties.

(a) The Group had the following ongoing transactions with related parties during the year:

	Notes	**2010** RMB'000	2009 RMB'000
Sales to the Non-listed GOME Group*	*(i)*	**595,362**	360,134
Purchases from the Non-listed GOME Group	*(i)*	**(125,064)**	(92,527)
Provision of management and purchasing services to the Non-listed GOME Group	*(ii)*, 5	**250,000**	233,541
Rental expenses and other expenses to Beijing Xinhengji and the Non-listed GOME Group	*(iii)*	**(52,985)**	(3,574)
Rearrangement of rental expenses and other expenses for year 2009 to the Non-listed GOME Group	*(iii)*	**(55,242)**	–
Provision of corporate guarantees from the Non-listed GOME Group in respect of the Group's bills facilities	*(iv)*	**30,000**	880,000
Rental income from a related party	*(v)*	**517**	524
Rental expenses to Centergate Technologies	*(vi)*	**(6,612)**	(6,612)

* Beijing Eagle Investment Co., Ltd., Beijing Pengrun Property Co., Ltd. ("Beijing Pengrun Property"), Beijing Gome Electrical Appliance Co., Ltd., Gome Electrical Appliance Retail Co., Ltd. and other companies are collectively referred to as "Non-listed GOME Group". Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong, a substantial shareholder and the former chairman of the Company.

Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji") is owned by a close member of the family of Mr. Wong. In late 2007, Beijing Xinhengji assigned ownership of certain building area to Beijing Pengrun Property and also authorized Beijing Pengrun Property to manage and operate the building area, including receiving and collecting the rentals of the building area, pending completion of registration of ownership assignment with the relevant PRC authorities.

Centergate Technologies is a listed company in the PRC on which Mr. Wong had significant influence.

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) The Group had the following ongoing transactions with related parties during the year: *(continued)*

Notes:

(i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and the Non-listed GOME Group in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase cost from the Group's third party suppliers. The transactions constitute continuing connected transactions under the Listing Rules.

(ii) The Group provides management services to the Non-listed GOME Group in respect of the retailing of electrical appliances and consumer electronic products. In addition, the Group negotiates with various suppliers for both the Group and the Non-listed GOME Group on a centralised basis. During 2009, Jinan Wansheng Yuan Economic Consulting Company Limited ("Jinan Wansheng Yuan"), an indirect wholly-owned subsidiary of the Company, entered into a management agreement with the Non-listed GOME Group, pursuant to which Jinan Wansheng Yuan procured other members of the Group to provide management services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. In addition, Kunming Hengda Logistics Company Limited ("Kunming Hengda"), an indirect wholly-owned subsidiary of the Company, entered into a purchasing service agreement with the Non-listed GOME Group, pursuant to which Kunming Hengda provided purchasing services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. The amount of the management service fee and the purchasing service fee is charged based on 0.6% and 0.9%, respectively, of the total turnover of the Non-listed GOME Group. The transactions constitute continuing connected transactions under the Listing Rules.

(iii) According to the lease agreement dated 20 December 2003 between the Group and Beijing Xinhengji and supplemented agreements thereto from 2004 to 2009, the Group paid contracted rentals for leased properties at an annual rental of approximately US$523,000 before 31 December 2009.

On 18 March 2011, the Group entered into lease agreements and supplemental agreements with Beijing Pengrun Property and Beijing Gome Electrical Appliance Co., Ltd. to record and confirm the use and occupation by the Group of some other properties in 2009 and 2010. The Group also entered into lease agreements with Beijing Pengrun Property and Beijing Gome Electrical Appliance Co., Ltd. to set out the terms of use by the Group of some properties in 2011 and 2012. The transactions constitute continuing connected transactions under the Listing Rules.

(iv) The provision of guarantees is at nil consideration.

(v) The Company's subsidiaries, Hong Kong Punching Centre Limited and China Eagle Management Limited, received operating lease rentals in respect of the Group's investment properties from GOME Home Appliances (Hong Kong) Limited, a company owned by Mr. Wong, totalling RMB517,000 (2009: RMB524,000) during the year.

(vi) In November 2007, the Group entered into a lease agreement with Centergate Technologies to lease certain commercial properties for the Group's retail operations for a period from 1 December 2007 to 30 November 2020 with a prepaid rental of RMB85,952,000. The balance of the rental prepayments at 31 December 2010 amounted to RMB65,565,000 (31 December 2009: RMB72,177,000), among which RMB58,953,000 (31 December 2009: RMB65,565,000) (note 18) was classified as long term and RMB6,612,000 (31 December 2009: RMB6,612,000) (note 24) was classified as short term in the financial statements.

36. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel of the Group:

	2010	2009
	RMB'000	RMB'000
Fees	**1,068**	4,555
Other emoluments:		
Salaries, allowances, bonuses and other expense	**21,222**	8,661
Pension costs	**192**	182
Equity-settled share option expense	**40,946**	25,606
	63,428	39,004

37. CONTINGENCIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

Group	**31 December 2010 RMB'000**	31 December 2009 RMB'000
Guarantees executed to banks in connection with bill facilities granted in favour of:		
Dazhong Appliances	**351,919**	205,650

(b) Enforcement action by the Securities and Futures Commission

Court grants injunction to freeze assets of Mr. Wong and his spouse

On 7 August 2009, the Securities and Futures Commission (the "SFC") of the Hong Kong Special Administrative Region announced that the High Court has granted an interim injunction to freeze assets of up to HK$1,655,167,000 in relation to the former chairman of the Company, Mr. Wong, his spouse Ms. Du Juan and two companies.

Mr. Wong and Ms. Du Juan are alleged to have organised a share repurchase by the Company in January and February 2008 in order to use the Company's funds to buy shares originally held by Mr. Wong so that Mr. Wong could use the proceeds of that share sale to repay a HK$2.4 billion personal loan to a financial institution (the "Allegation").

37. CONTINGENCIES *(continued)*

(b) Enforcement action by the Securities and Futures Commission *(continued)*

Court grants injunction to freeze assets of Mr. Wong and his spouse *(continued)*
The SFC alleges that the share repurchase had a negative impact on the Company's financial position and was not in the best interests of the Company and its shareholders. The SFC alleges that it provided the demand for the Company's shares and stabilised its share price when Mr. Wong disposed of his shares, thereby enabling him to earn more from his share sale. The SFC also alleges that this transaction was a fraud or deception in a transaction involving securities and caused a loss of approximately HK$1.6 billion to the Company and its shareholders.

The SFC is seeking orders that Mr. Wong, Ms. Du Juan and the two companies owned and controlled by them:

- to restore the parties to any transaction, in particular the Company, to the position in which they were before the transaction was entered into; and/or

- to pay damages to the Company.

The injunction serves to prevent the dissipation of assets pending the conclusion of the SFC's investigation and to ensure that there are sufficient assets to satisfy any restoration or compensation orders, if orders are made against Mr. Wong, Ms. Du Juan and the two companies.

Court continues orders against Mr. Wong and his spouse
The order is an ex parte interim injunction obtained by the SFC. The defendants have not yet had a chance to reply to the SFC's allegations.

On 7 August 2009, the Company announced that it has been provided with a copy of the court order (the "Court Order") by the SFC and confirmed that (a) the Company is not a defendant to the Court Order; and (b) the assets of the Company are not subject to the Court Order. In view of the above, the business of the Company or its subsidiaries is not and will not be adversely affected by the Court Order.

According to the enforcement news of the SFC dated 8 September 2009, the High Court ordered the two companies associated with Mr. Wong and Ms. Du Juan not to dispose of, deal with or encumber 779,255,678 shares of the Company pending further order.

The two companies, Shinning Crown Holdings Inc. and Shine Group Limited, deposited with the court share certificates representing these shares pursuant to the interim injunctions ordered against them, Mr. Wong and Ms. Du Juan, freezing their assets up to the amount of HK$1,655,167,000.

37. CONTINGENCIES *(continued)*

(b) Enforcement action by the Securities and Futures Commission *(continued)*

Court continues orders against Mr. Wong and his spouse *(continued)*

The delivery of these share certificates into the custody of the court, together with the orders made on 8 September 2009 prohibiting the disposal of the shares, will preserve them for the purposes of the legal proceedings initiated by the SFC. Accordingly, the interim injunctions against the two companies were discharged. However, the interim injunctions remain effective against Mr. Wong and Ms. Du Juan.

Separately, the court declined to order the defendants to provide additional assets if the value of the Company's shares deposited with the court fell below HK$1,655,167,000.

The SFC is obliged to comply with and follow the court's rules and procedures for due service of the proceedings on Mr. Wong and Ms. Du Juan in the PRC. This process started after the SFC had commenced these proceedings. The SFC continues to liaise with the PRC authorities with a view to assisting the court to effect service on them.

High Court varies order against Ms. Du Juan

The High Court has varied the interim injunction order in relation to the proceedings commenced by the SFC involving the Allegation against Mr. Wong and his spouse. Following undertakings to the Court by Shinning Crown Holdings Inc. and Shine Group Limited, the SFC consented to the discharge of the interim injunction order made against Ms. Du Juan. The undertakings ensure that HK$1,655,167,000 in shares of the Company as represented by the share certificates that have been deposited with the High Court by Shinning Crown Holdings Inc. and Shine Group Limited in compliance with the High Court's interim injunctions order will also irrevocably and unconditionally be used and applied to meet any liability of Ms. Du Juan, if such liability is imposed by the High Court in these proceedings. The variation of the interim injunctions order has no effect on the freezing order against Mr. Wong.

Other than the above, the Group did not have any significant contingencies at the end of the reporting period.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

2010

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	127,710	127,710
Designated loans	3,648,000	–	3,648,000
Trade and bills receivables	206,102	–	206,102
Financial assets included in prepayments, deposits and other receivables	1,417,110	–	1,417,110
Due from related parties	251,290	–	251,290
Pledged deposits	6,268,130	–	6,268,130
Cash and cash equivalents	6,232,450	–	6,232,450
	18,023,082	127,710	18,150,792

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank loans	–	100,000	100,000
Trade and bills payables	–	16,899,683	16,899,683
Financial liabilities included in customers' deposits, other payables and accruals	–	728,131	728,131
Due to related parties	–	97,826	97,826
Liability components of convertible bonds	–	1,944,045	1,944,045
Derivative component of convertible bonds	(7,349)	–	(7,349)
	(7,349)	19,769,685	19,762,336

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

2009

Financial assets

	Financial assets at fair value through profit or loss – held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	153,360	153,360
Hong Kong listed investments	1,635	–	–	1,635
Designated loan	–	3,600,000	–	3,600,000
Trade and bills receivables	–	54,199	–	54,199
Financial assets included in prepayments, deposits and other receivables	–	859,919	–	859,919
Due from related parties	–	157,146	–	157,146
Pledged deposits	–	8,796,344	–	8,796,344
Cash and cash equivalents	–	6,029,059	–	6,029,059
	1,635	19,496,667	153,360	19,651,662

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank loans	–	350,000	350,000
Trade and bills payables	–	15,815,261	15,815,261
Financial liabilities included in customers' deposits, other payables and accruals	–	1,767,895	1,767,895
Liability components of convertible bonds	–	5,455,955	5,455,955
Derivative component of convertible bonds	(100,689)	–	(100,689)
	(100,689)	23,389,111	23,288,422

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Investment in subsidiaries	**4,753,320**	3,308,856
Financial assets included in prepayments, deposits and other receivables	**507**	9,238
Pledged deposits	**–**	2,606,371
Cash and cash equivalents	**1,553,331**	1,918,775
	6,307,158	7,843,240

Financial liabilities

	2010			2009		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	**Financial liabilities at amortised cost RMB'000**	**Total RMB'000**	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Liability components of convertible bonds	**–**	**1,944,045**	**1,944,045**	–	5,455,955	5,455,955
Derivative component of convertible bonds	**(7,349)**	**–**	**(7,349)**	(100,689)	–	(100,689)
	(7,349)	**1,944,045**	**1,936,696**	(100,689)	5,455,955	5,355,266

39. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Other investments	**127,710**	153,360	**127,710**	153,360
Designated loans	**3,648,000**	3,600,000	**3,648,000**	3,600,000
Hong Kong listed investments, at fair value	**–**	1,635	**–**	1,635
Trade and bills receivables	**206,102**	54,199	**206,102**	54,199
Financial assets included in prepayments, deposits and other receivables	**1,417,110**	859,919	**1,417,110**	859,919
Due from related parties	**251,290**	157,146	**251,290**	157,146
Pledged deposits	**6,268,130**	8,796,344	**6,268,130**	8,796,344
Cash and cash equivalents	**6,232,450**	6,029,059	**6,232,450**	6,029,059
	18,150,792	19,651,662	**18,150,792**	19,651,662
Financial liabilities				
Interest-bearing bank loans	**100,000**	350,000	**100,000**	350,000
Trade and bills payables	**16,899,683**	15,815,261	**16,899,683**	15,815,261
Financial liabilities included in customers' deposits, other payables and accruals	**728,131**	1,767,895	**728,131**	1,767,895
Due to related parties	**97,826**	–	**97,826**	–
Derivative component of convertible bonds	**(7,349)**	(100,689)	**(7,349)**	(100,689)
Liability components of convertible bonds	**1,944,045**	5,455,955	**2,449,543**	6,640,630
	19,762,336	23,288,422	**20,267,834**	24,473,097

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Investment in subsidiaries	**4,753,320**	3,308,856	**4,753,320**	3,308,856
Financial assets included in prepayments, deposits and other receivables	**507**	9,238	**507**	9,238
Pledged deposits	**–**	2,606,371	**–**	2,606,371
Cash and cash equivalents	**1,553,331**	1,918,775	**1,553,331**	1,918,775
	6,307,158	7,843,240	**6,307,158**	7,843,240
Financial liabilities				
Derivative component of convertible bonds	**(7,349)**	(100,689)	**(7,349)**	(100,689)
Liability components of convertible bonds	**1,944,045**	5,455,955	**2,449,543**	6,640,630
	1,936,696	5,355,266	**2,442,194**	6,539,941

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related parties, the designated loans and interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are supported by observable market prices. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group

As at 31 December 2010

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Other investments:				
Equity investments	**–**	**127,710**	**–**	**127,710**

As at 31 December 2009

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Other investments:				
Equity investments	153,360	–	–	153,360
Equity investments at fair value through profit or loss	1,635	–	–	1,635
	154,995	–	–	154,995

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Assets measured at fair value: *(continued)*

During the year, there were a transfer of fair value measurements of other investments from Level 1 to Level 2 because the quoted price in active markets were not available at 31 December 2010, and no transfers into or out of Level 3 (2009: nil).

Company

The Company did not have any financial assets measured at fair value as at 31 December 2010.

Liabilities measured at fair value:

Group and Company

As at 31 December 2010

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Derivative component of convertible bonds	**–**	**–**	**(7,349)**	**(7,349)**

As at 31 December 2009

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative component of convertible bonds	–	–	(100,689)	(100,689)

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Liabilities measured at fair value: *(continued)*

The movements in fair value measurements in Level 3 during the year are as follows:

Group and Company

	2010	2009
	RMB'000	RMB'000
Derivative component of convertible bonds		
At 1 January	**(100,689)**	(2,280)
Loss/(gain) recognised in the income statement *(note 30(i))*	**93,340**	(136,740)
Repurchases *(note 30(i))*	**–**	38,331
At 31 December	**(7,349)**	(100,689)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, other investments and Hong Kong listed investments, comprise cash and bank balances, designated loans, interest-bearing bank loans, convertible bonds, trade and bills payables and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as other receivables, due from related parties, trade and bills receivables and pledged deposits which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2010, the Group did not have debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

As at 31 December 2010, the Group had cash and bank deposits of RMB413,805,000 (2009: RMB4,627,000,000), which were denominated in foreign currencies including USD and the Hong Kong dollar. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate of USD and the Hong Kong dollar with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities). Other components of equity would not change.

	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in profit before tax RMB'000**
2010		
If RMB weakens against USD	**5%**	**8,025**
If RMB strengthens against USD	**(5%)**	**(8,025)**
If RMB weakens against the Hong Kong dollar	**5%**	**11,014**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**(11,014)**
2009		
If RMB weakens against USD	5%	163,971
If RMB strengthens against USD	(5%)	(163,971)
If RMB weakens against the Hong Kong dollar	5%	67,366
If RMB strengthens against the Hong Kong dollar	(5%)	(67,366)

Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 23 to these financial statements.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, pledged deposits, other receivables and amounts due from related parties, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of such financial instruments.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds based on the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade and bills payables, convertible bonds and interest-bearing bank loans. As at 31 December 2010, the Group had trade and bills payables amounting to RMB16,899,683,000 (31 December 2009: RMB15,815,261,000). In addition, as at 31 December 2010, the Group had the bank loan balance of RMB100,000,000 (31 December 2009: RMB350,000,000) which will mature within 12 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period, based on contractual or expected undiscounted payments.

Group

	2010			
	Within 1 year RMB'000	**2 to 3 years RMB'000**	**Over 3 years RMB'000**	**Total RMB'000**
Convertible bonds	**70,716**	**2,668,669**	**–**	**2,739,385**
Interest-bearing bank loans	**100,000**	**–**	**–**	**100,000**
Trade and bills payables	**16,899,683**	**–**	**–**	**16,899,683**
Financial liabilities included in customers' deposits and other payables	**728,131**	**–**	**–**	**728,131**
Due to related parties	**97,826**	**–**	**–**	**97,826**
Guarantees given to banks in connection with bill facilities granted in favour of Dazhong Appliances	**351,919**	**–**	**–**	**351,919**
	18,248,275	**2,668,669**	**–**	**20,916,944**

	2009			
	Within 1 year RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Convertible bonds	2,988,515	2,743,293	2,586,652	8,318,460
Interest-bearing bank loans	350,000	–	–	350,000
Trade and bills payables	15,815,261	–	–	15,815,261
Financial liabilities included in customers' deposits and other payables	1,027,386	–	–	1,027,386
Guarantees given to banks in connection with bill facilities granted in favour of Dazhong Appliances	205,650	–	–	205,650
	20,386,812	2,743,293	2,586,652	25,716,757

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Company

	2010			
	Within 1 year	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Convertible bonds	**70,716**	**2,668,669**	**–**	**2,739,385**
Other payables	**3,078**	**–**	**–**	**3,078**
	73,794	**2,668,669**	**–**	**2,742,463**

	2009			
	Within 1 year	2 to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Convertible bonds	2,988,515	2,743,293	2,586,652	8,318,460
Other payables	55,786	–	–	55,786
	3,044,301	2,743,293	2,586,652	8,374,246

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from available-for-sale investments (note 16) as at 31 December 2010. The Group's listed investments are valued at appraised value at the end of the reporting period.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Equity price risk *(continued)*

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	31 December 2010	**High/low 2010**	31 December 2009	High/low 2009
Hong Kong – Hang Seng Index	**23,035**	**24,989/ 18,972**	21,873	22,944/ 11,345
Shanghai – A Share Index	**2,808**	**3,307/ 2,320**	3,437	3,644/ 1,956

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact of tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments RMB'000	**Increase/ decrease in profit before tax RMB'000**	**Increase/ decrease in equity* RMB'000**
2010			
Investments listed in:			
Shanghai – Available-for-sale	**127,710**	**–**	**12,771**
2009			
Investments listed in:			
Hong Kong- Held-for-trading	1,635	164	–
Shanghai – Available-for-sale	153,360	–	15,336

* Excluding retained earnings

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objective of the Group's capital management is to ensure that the Group has healthy capital structure in order to support the Group's stability and growth.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration of changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank loans, amounts due to related parties, trade and bills payables and customers' deposits, other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes convertible bonds and equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2010 **RMB'000**	2009 RMB'000
Interest-bearing bank loans	**100,000**	350,000
Due to related parties	**97,826**	–
Trade and bills payables	**16,899,683**	15,815,261
Customers' deposits, other payables and accruals	**1,819,999**	1,829,514
Less: Cash and cash equivalents	**(6,232,450)**	(6,029,059)
Pledged deposits	**(6,268,130)**	(8,796,344)
Net debt	**6,416,928**	3,169,372
Convertible bonds, the liability component	**1,944,045**	5,455,955
Equity attributable to owners of the parent	**14,735,187**	11,802,465
Total capital	**16,679,232**	17,258,420
Capital and net debt	**23,096,160**	20,427,792
Gearing ratio	**28%**	16%

41. EVENTS AFTER THE REPORTING PERIOD

Warrants

The Company received an exercise notice from the holder of the Warrants (the "Warrantholder") on 17 January 2011 to exercise in full its right under the Warrants to subscribe for new ordinary shares in the Company of HK$0.025 each in the amount of US$25,000,000. An aggregate of 108,790,252 ordinary shares have been issued by the Company to the Warrantholder on 24 January 2011 at the exercise price of US$0.2298 per share. The shares issued rank pari passu with the existing shares of the Company and represent approximately 0.647% of the issued share capital of the Company as enlarged by the issue of new shares.

After the exercise of the Warrants, the Company does not have any outstanding Warrants.

Share option

During the period from 31 December 2010 to 28 March 2011, the subscription rights attaching to 21,742,000 share options were exercised at the subscription price of HK$1.9 per share, resulting in the issue of 21,742,000 shares.

Change in directors

On 10 March 2011, Mr. Chen Xiao resigned as the chairman of the board of directors and executive director of the Company. Mr. Sun Yi Ding also resigned as executive director of the Company. On the same day, Mr. Zhang Da Zhong was appointed as non-executive director of the Company and chairman of the board of directors of the Company, and Mr. Lee Kong Wai, Conway was appointed as independent non-executive director of the Company.

Save as disclosed above and in notes 20 and 36(a)(iii), the Group did not have any significant events taking place subsequent to 31 December 2010.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 28 March 2011.

Corporate Information

Directors

Executive Directors

NG Kin Wah
WANG Jun Zhou
WEI Qiu Li
ZOU Xiao Chun

Non-executive Directors

ZHANG Da Zhong *(Chairman)*
ZHU Jia
Ian Andrew REYNOLDS
WANG Li Hong
HUANG Yan Hong

Independent Non-executive Directors

SZE Tsai Ping, Michael
CHAN Yuk Sang
Thomas Joseph MANNING
LEE Kong Wai, Conway

Company Secretary

SZETO King Pui, Albert

Authorised Representatives

NG Kin Wah
ZOU Xiao Chun

Principal Bankers

Bank of Shanghai
China Construction Bank
CITIC Bank
Industrial Bank Co., Ltd.
China Merchant Bank
Agricultural Bank of China
Standard Chartered Bank
(China) Limited

Auditors

Ernst & Young
Certified Public Accountants

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office

Unit 6101, 61st Floor
The Center
99 Queen's Road Central
Hong Kong

Principal Share Registrar in Bermuda

Butterfield Fulcrum Group
(Bermuda) Limited
11 Bermudiana Road
Pembroke HM08
Bermuda

Branch Share Registrar in Hong Kong

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

国美电器

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

Unit 6101, The Center, 99 Queen's Road Central, Hong Kong
Tel : (852) 2122 9133 Fax : (852) 2122 9233 Website : www.gome.com.hk