国美电器

FORGING AHEAD

ON THE LONG-TERM SUSTAINABLE GROWTH

ANNUAL REPORT 2011

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

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.

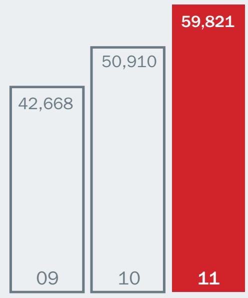
HIGHLIGHT

- All businesses achieved healthy and sustainable growth, and the business development plans made in the beginning of the year were well executed
- Revenue for the year amounted to RMB59,821 million, representing a year-on-year increase of 17.50%
- Consolidated gross profit margin was 18.15% as compared to 18.39% last year
- Profit attributable to owners of the parent company was RMB1,840 million as compared to RMB1,962 million last year
- Basic earnings per share were RMB0.109 as compared to RMB0.127 last year
- Revenue from comparable stores increased by 3.06% as compared to last year

REVENUE
(RMB million)

59,821

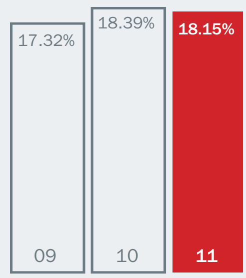
Revenue for the year amounted to RMB59,821 million



CONSOLIDATED GROSS PROFIT MARGIN*

18.15%

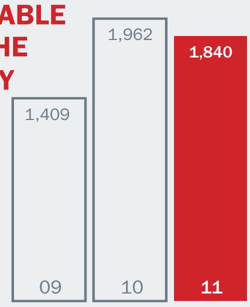
Consolidated gross profit margin was 18.15%



PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY
(RMB million)

1,840

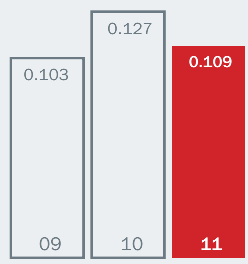
Profit attributable to owners of the parent company was RMB 1,840 million



BASIC EARNINGS PER SHARE
(RMB)

0.109

Basic earnings per share were RMB0.109



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

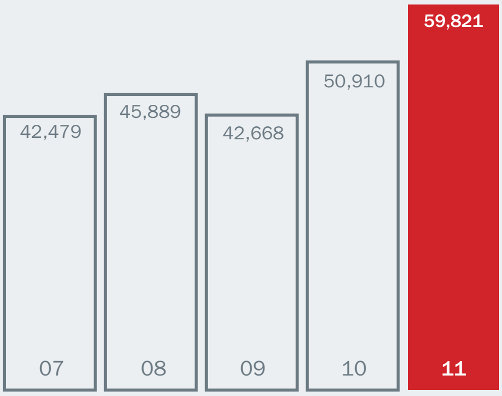
Five Year Financial Summary

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000	Year ended 31 December 2009 RMB'000	Year ended 31 December 2008 RMB'000	Year ended 31 December 2007 RMB'000
Revenue	**59,820,789**	50,910,145	42,667,572	45,889,257	42,478,523
Profit attributable to owners of the parent	**1,839,867**	1,961,654	1,409,288	1,048,160	1,127,307
Total assets	**37,227,468**	36,217,262	35,763,180	27,495,104	29,837,493
Total liabilities	**21,309,174**	21,482,075	23,960,715	18,795,069	19,444,825
Non-controlling interest	**(30,469)**	–	–	140,201	89,689
Net assets	**15,918,294**	14,735,187	11,802,465	8,700,035	10,392,668

Financial and Operational Highlights

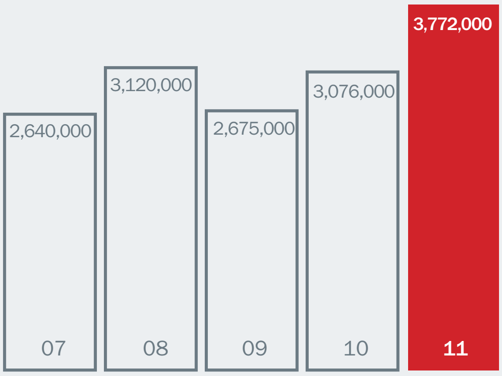
REVENUE

(RMB million)



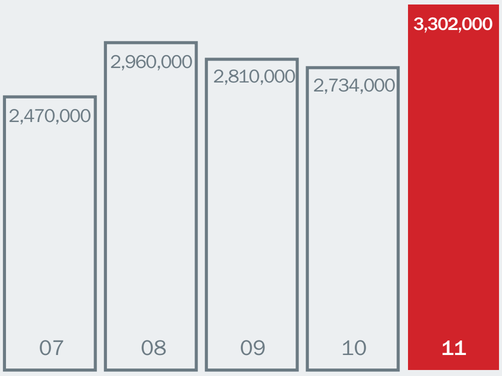
TOTAL SALES AREA AT YEAR END

(sq.m)

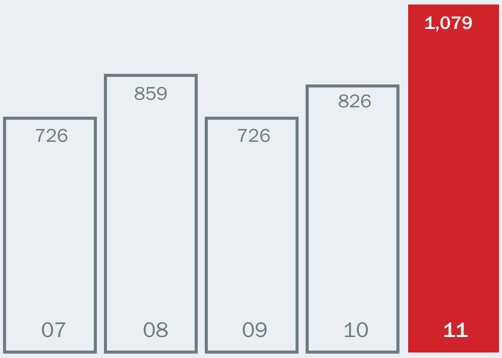


WEIGHTED AVERAGE SALES AREA

(sq.m)

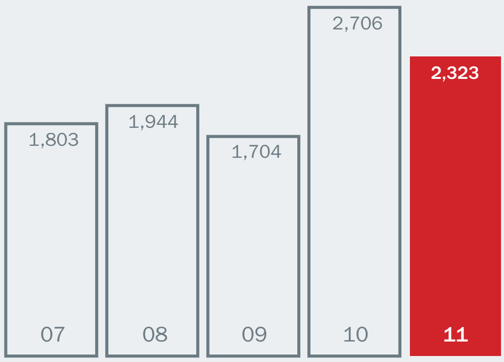


NUMBER OF STORES AT YEAR END



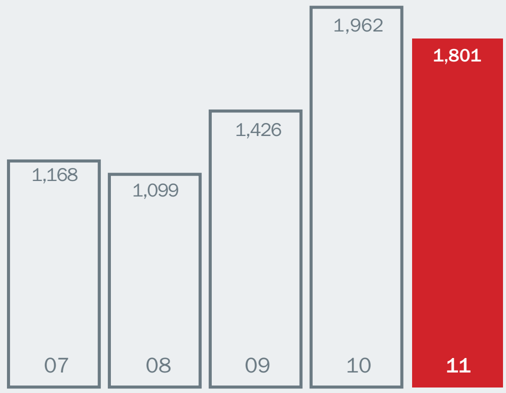
PROFIT FROM OPERATING ACTIVITIES

(RMB million)



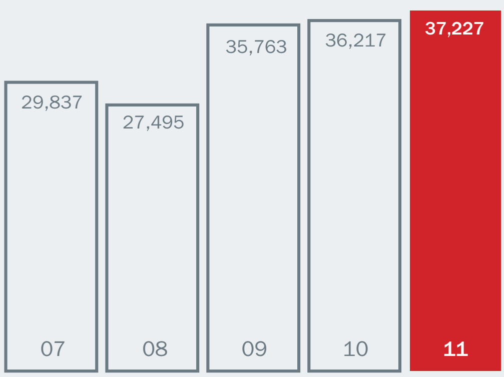
PROFIT FOR THE YEAR

(RMB million)



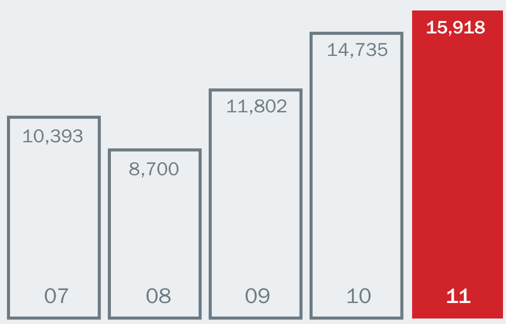
TOTAL ASSETS

(RMB million)



NET ASSETS

(RMB million)



SAME-STORE GROWTH NETWORK DEVELOPMENT

GOME has always strived to boost the long-term value and benefits of all shareholders

The Group considers same-store growth as the major way of increasing sales, optimization of stores in first-tier cities and business expansion in second- and third-tier cities as the continuous development strategy, while e-commerce as the driver of future development.

Chairman's Statement

The home appliances sector is undergoing revolutionary changes in China. As the leading player in the industry, GOME takes the lead to address the problems and promote a healthy development of the industry.

Dear Shareholders,

Dramatic changes are taking place in the operating environment of the global home appliances industry. Affected by factors such as the European sovereign debt crisis and the slowdown in the global economic recovery, consumer demand has retreated and became increasingly volatile, while the global retail home appliances sector has also entered a period of structural change. At this historic juncture, both the home appliances retail business and the retail sector in China are facing unprecedented pressures and opportunities.

I am very conscious of the mismatch between the supply and demand chains in the retail home appliances business, and the disconnection between market supply and the consumer demand. As a result, compared to global leaders in the sector, the retail home appliances sector in China still has a long way to go, as demonstrated by the lack of innovative product ideas, the frequent price wars and the absence of an influential brand in the global marketplace, etc.

Concurrently, the retail home appliances business in China is going through its own period of evolutionary change. As seen from development patterns in retailing worldwide, retail businesses generally have to go through distinct development stages from operation by location, through operation by supplier, to operation by merchandise and finally operation by clients. Compared to leading international retail enterprises, the majority of retail businesses in China still remain at the operation by location and operation by supplier stages, leaving a few of them at the stage of operation by merchandise. Many of these enterprises simply achieved their performance targets just by building business scale and opening new stores rather than focusing on merchandise and client operations.

In general, China's retail home appliances sector is facing various challenges, but the whole industry and the enterprise itself is entering a critical stage of upgrade and transformation, showing that the industry offers ample development opportunities.

Precisely because of its deep insight into the economic situation and development of the sector, GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries, (collectively known as the "Group" or "GOME"), being a leading player in the home appliances retail industry in China, has a responsibility for leading the development of the industry. GOME has grasped this golden opportunity and commenced a transformation of its business model dictated by consumer demand, with comprehensive integration of supply and demand chains as its core concept. Based on this business model transition, the strategy of GOME will shift from internal operations to forming alliances; our retail model will shift from shopping mall operation to merchandise and client operations, while business management will transform from contract management to product management, and we will gradually achieve the integration and coordination internally and externally in the areas of sales, finances, and supply and demand chains.

Following the dictates of this strategic model, GOME has further improved its logistics network, building comprehensive advantages both online and offline. Offline, while maintaining its national leading position, GOME has further optimized its store network in first-tier cities, grasped the growth opportunities in second and third-tier cities, and enhanced and expanded its coverage of those markets. These initiatives have achieved "rural-urban integration" of the retail chain network, and provided effective support for the home appliances industry to further exploit domestic demand. Online, we executed the multi-brand formation of GOME online shopping mall and the COO8 shopping website. The on-line and off-line business share the Group's advantages in areas such as procurement, logistics, information and services, thereby achieving effective integration of online and offline sales.

Also, in its efforts to strengthen core competence, enhance management and lower operation costs, the Group has successfully upgraded its existing information management system ("ERP") nationwide this year, positioning the Group among the leaders in information systems development in China.

GOME has dramatically increased its operating efficiency and boosted average sales revenue from individual stores above the industry average through optimization of network, the application of innovative store models and refined management. In accordance with the principle of cost saving along the value chains and enhancing operational efficiency, GOME will continue to optimize store and logistics networks with the largest scale, best balance and highest efficiency network in both rural and urban areas, realize the maximization of the input-output ratio for suppliers on GOME platforms, facilitate the harmonious development of retailers and suppliers, and consequently enhance the competitiveness of China's home appliances industry.

I would like to express my deepest respect and appreciation to all GOME employees for their ceaseless efforts and contributions to the satisfactory results achieved in 2011. I would also like to thank everyone outside of GOME for their support of the Group's development. We have always striven to benefit shareholders, employees and customers, and have focused on the long-term sustainable development of the Group. I myself have full confidence in leading the rapid yet steady development of GOME, overcoming all challenges and forging GOME into a globally competitive brand.

Zhang Da Zhong
Chairman

OPERATION IMPROVEMENT PRODUCT OPTIMIZATION

GOME put customer service as a core of our development

Management Discussion and Analysis

The Group will increase its consolidated gross profit margin through the optimization of product mix and boost overall operation efficiency through strengthening the operation capabilities of stores.

Management Discussion and Analysis

Overview

During the reporting period, the Group relentlessly focused on the implementation of its five-year plan, adhering to the strategic guidelines of "leading in 2011 through maximum efforts and minimum waste" laid out at the beginning of the year. In the current macroeconomic environment, with the slowing down of the global economic recovery and complications in the domestic market, we have effectively implemented strategic measures and overcome various challenges. We have achieved satisfactory results in areas such as retail network coverage, the transformation of our business model, the 3C business (including digital devices such as computers, cameras and communications equipment), the build out of information systems and e-commerce. All these contributed to a strong platform for the Group's development.

The Group recorded revenue of approximately RMB59,821 million over the reporting period, up 17.50% from approximately RMB50,910 million recorded in the corresponding period of the previous year. Profit attributable to owners of the parent company was approximately RMB1,840 million, as compared to RMB1,962 million in the corresponding period of the previous year.

As at the end of the reporting period, the Group's retail network has increased from 826 at the end of 2010 to 1,079 stores following the opening of 282 new stores and closure of 29 underperforming stores. Through implementing strategies including remodelling of existing stores, optimization of product mix and

By following international and advanced operational models, the Group's implementation of seamless connection among retailers, consumers and suppliers was accelerated. This enhanced the efficiency of the whole supply and demand chain, reducing the costs and benefit consumers and global suppliers.

operation by merchandise, the operational efficiency of individual stores was further enhanced, recording a 3.06% growth in sales revenue from comparable stores.

During 2011, the Group swiftly and effectively executed the build out of its information management systems. The ERP Leader Navigation Project ("ERP Project") was successfully installed in certain pilot sites on 1 July 2011, and fully launched nationwide

subsequently on 1 November 2011. It has since been efficiently utilized by the Group. The ERP Project has been implemented with the joint efforts of leaders in the IT industry such as SAP and Hewlett-Packard, delivering a pioneering system in the global retail industry, equipped with the most advanced information system in the country. Through the creation of an information-sharing platform, facilitating exchange of information between retailers and suppliers, not only will it support the realization of the Group's business model transformation, but will also enhance the responsiveness of the Group towards the consumer market. This will enable the Group to provide customers with better quality products at a lower price so as to elevate customer shopping experience. By following international and advanced operational models, the implementation of seamless connection among retailers, consumers and suppliers is accelerated. This enhanced the efficiency of the whole supply and demand chain, reducing the costs and benefit consumers and global suppliers. As a result, the Group will be able to maintain its leadership position in the home appliances retail market in China.

The various measures formulated by the Group at the beginning of the year were effectively executed. In addition to the store and logistics network expansion, remodelling of storefronts and build out of the IT system, other key measures include: (1) exploring second-tier markets, rapidly expanding the store network in these markets, continuously optimizing the supply and distribution chains in order to attain absolute competitive advantages; (2) strengthening e-commerce, enhancing the Group's multi-channel sales, and consolidating the Group's market-leading position; (3) strengthening of the 3C business, strenuously promoting 3C accessories and cooperation between telecommunication operators, and dramatically increasing the proportion of 3C products sales to our total revenue; (4) continuing the implementation of differentiated operations, such as ODM and OEM supplier systems, realizing profit differentiation through product differentiation, and enhancing the overall profitability of the Group.

Operating Environment and Market Potential

During 2011, the PRC and global economies fell into complicated situations. On one hand, global economic growth was sluggish, developed economies lack strong internal growth drivers, unemployment remained high, and sovereign debt risk has intensified. Moreover, the successive downgrades of the sovereign debt rating of major economies further demonstrated the increasing economic downturn risk and the slowing down in the global economic recovery. On the other hand, China's economic growth maintained at a rapid pace, with China's GDP growth at 9.2% during the reporting period (data from the National Bureau of Statistics of China). At the same time, the inflation pressure were becoming more severe, posing a more significant threat of asset bubbles.

Although the global economic recovery has slowed down, the consumer electrical appliances market still possesses enormous potential. At present, China's general penetration rate of home electrical appliances is still relatively low when compared to the developed countries. Over the past few years, the disposable income of rural residents has risen significantly. In addition, the continuous urbanization of second- and third-tier cities, the gradual change in consumption habits, and the continuous improvement in the living standard will become a powerful driving force for the growth in home appliances consumption.

During 2011, the government tightened up the controls on the real estate market. As a result of the slowing down in the construction of private housing, there was pressure on demand growth for traditional home appliances such as TVs, refrigerators, washing machines and air conditioners. On the other hand, the 3C products, with fast feature upgrades, expanding market demand and sales revenue, are always the key focus for development of the Group.

GOME being the leading player in the home electrical appliances retail business in China, will continue its business transformation and business model innovation, expand network and renovate storefronts despite the complicated economic and industry environment. The Group will also continue to enhance the efficiency of its supply chain and merchandise management capabilities, to ensure steady growth and to secure its leading position.

By the end of the reporting period, inspired by advanced international outlet designs, the Group has transformed a total of 661 existing stores into stylish and customised "new-model stores" that provide customers with enjoyable shopping experience.

Analysis of operating advantages

Optimized Store Network

During the reporting period, the Group has continued to upgrade existing store layouts and optimize store network.

On one hand, the Group further enhanced the store network in highly competitive areas and matured markets with no store network coverage. Further expanding stores in second- and third-tier cities according to the strategic move. In the meantime closed down underperforming stores while optimized overlapping stores through means, among others, of subletting. In 2011, the Group opened 282 new stores and closed 29 stores, resulting in a net increase of 253 stores.

On the other hand, GOME has renovated most of the first-tier stores to cope with increasing customer expectation in better shopping experience and leisure lifestyles. By the end of the reporting period, the Group has transformed a total of 661 existing stores into stylish and customised "new-model stores" that provide customers with enjoyable shopping experience. Bright storefronts, first-class services and customized settings that provides customers with brand new lifestyle experience becomes the model features of top-class electrical chain store nationwide. By the end of the reporting period, the Group had already opened 40 "Xin Huo Guan" stores in major cities targeting medium- to high-profile customers. These stores offering full scale stylish high-end products have successfully fulfilled the diverse demand and widened the customer base among groups such as the young middle class and customers with high spending power, and have thus improved the Group's brand image as well as profitability.

By the end of year 2011, the Group had 1,079 stores which covered 235 large and medium-sized cities across China. Among them, 642 stores were located in first-tier cities with higher spending powers.

In addition, with the inclusion of 595 Non-listed GOME Group stores (excluding outlets in Hong Kong and Macau) and 63 Beijing Dazhong Home Appliances Retail Co. Ltd. (“Dazhong Appliances”) stores managed by the Group, the total number of stores operating by the Group and the Non-listed GOME Group would reach 1,737 by the end of 2011, spanned 416 large- and medium-sized cities.

As at the end of the reporting period, total sales area occupied by the 1,079 stores was approximately 3,772,000 sq.m.. The average sales area per store was approximately 3,496 sq.m., down 6.15% as compared to 3,725 sq.m. in 2010.

The management believes that home electrical appliances retailers will shift from merely building scale to improving individual store efficiency, with emphasis on shopping experience, convenience, and satisfying the diverse and personal needs of the users. Therefore, GOME has upgraded existing stores into “new-model stores” and launched the “Xin Huo Guan” flagship stores in first-tier markets, to comprehensively satisfy customers in terms of shopping experience and personal needs. For second-tier markets, while improving the shopping environments, we have also optimized our store network to provide more convenience to our consumers.

Based on our experience and overall market developments in 2011, the profitability and the future business drivers of the Group will rely on an effective physical store network plus e-commerce (online and offline) model, a favorable shopping environment, a rich variety of merchandise and well established after-sales services.

Exploring the Second-tier Markets

With the PRC’s rapid urbanization, there has been a gradual shift of industries from urban to rural regions. Growth in the real estate market and the steadily rising incomes of rural residents in China are driving up the penetration rate of electrical appliances and electronics products in the second-tier cities, creating enormous business opportunities.

During the reporting period, the Group refined the management of existing stores and optimized the store network coverage. Accelerated the pace of store openings in second-tier markets while ensuring the supports from the supply chain. The strengthening of its logistic systems and information platform, and the enhancement of its operating abilities in second-tier markets, has become a strong momentum for the rapid yet steady development of the Group. By the end of the reporting period, the Group has 437 stores, or 40.50% of the total stores in 209 second-tier cities. The upgrade and revamp program covering 185 stores in second-tier markets (“185 Project”) is still under way and a total of 68 stores were revamped.

Promoting 3C Business

3C products are fashionable and stylish, typically with fast product upgrades, high turnover rates and enormous market demands. In 2011, through the promotion of "Xin Huo Guan" flagship stores and revamp of "new-model stores", the display and presentation of 3C products sales booths were upgraded. The Group has successfully shifted from operation by supplier to operation by merchandise to enrich 3C product mix including accessories, new items and exclusive new products. The Group has also improved its daily replenishment system and logistics for 3C products to enhance store operational efficiency as well as customer satisfaction.

In order to expand the scope of the 3C business to improve profit margins, the Group continued to promote its alliances with various telecom operators in China through the establishment of nationwide cooperative stores, build up of designated service areas and mobile handset booths in our stores. We also carried out joint promotional campaigns with telecom operators such as prepayment for free mobile phones and free air-time for mobile phone purchases, etc. These initiatives enabled the Group to build and maintain customer loyalties, and thus effectively increased the portion of sales and profits contributed by 3C products.

Continuous Development of Differential Operation

Differential operation, being a core development strategy of the Group, grew rapidly during the reporting period. The Group carried out various cooperative activities with major suppliers such as promotion, exclusive sales, private label, OEM, ODM and accessories. Differential operation was carried out by the Group through setting clear targets, strengthening operation measures and implementing post-assessments. In terms of operation measures, the Group continued to increase the number of differential brands carried by its stores, display highlighted products in key stores and designated corners in the stores. The Group also launched promotional packages and conducted marketing events on monthly basis. In addition, through more target oriented staff performance assessment, the incentives and commission income for sales personnel were significantly improved in line with the increase in revenue from differentiated products.

During the reporting period, the Group's gross profit margin increased as the result of increase in sales contributed by differentiated products. Currently, the Group has entered into large scaled differentiated products cooperations with manufacturers such as Haier, Samsung, LG, Sharp, etc.. The management expects that more manufacturers will be joining the differential operation alliance with the Group.

THE NATIONWIDE RETAIL NETWORK OF THE GROUP

AS AT 31 DECEMBER 2011

With the inclusion of the 595 Non-listed GOME Group stores and 63 Dazhong Appliances stores managed by the Group, the total number of stores operating by the Group and the Non-listed GOME Group would reach 1,737 and spanned 416 large- and medium-sized cities.

Development of Network

	Group total	GOME	China Paradise	CellStar
Flagship stores	208	165	43	0
Standard stores	345	294	51	0
Specialized stores	526	407	73	46
Total	1,079	866	167	46
Among them:				
First-tier markets	642	481	121	40
Second-tier markets	437	385	46	6
Net increase in store number	253	188	39	26
Number of stores opened	282	207	46	29
Among them:				
First-tier markets	141	92	24	25
Second-tier markets	141	115	22	4
Number of cities accessed	235	200	57	6
Among them:				
First-tier cities	26	20	9	1
Second-tier cities	209	180	48	5

List of stores

Region	Flagship stores	Standard stores	Specialized stores	Total
Beijing	20	26	20	66
Shanghai	36	20	26	82
Tianjin	12	16	14	42
Chengdu	10	27	23	60
Chongqing	8	17	19	44
Xian	16	12	55	83
Shenyang	10	11	17	38
Qingdao	8	13	16	37
Jinan	7	6	21	34
Shenzhen	19	39	31	89
Guangzhou	18	43	77	138
Wuhan	6	16	23	45
Kunming	4	10	13	27
Fuzhou	7	11	19	37
Xiamen	4	10	22	36
Henan	4	18	21	43
Nanjing	2	18	28	48
Wuxi	1	4	6	11
Changzhou	2	7	5	14
Suzhou	4	5	15	24
Hefei	2	6	9	17
Xuzhou	1	3	15	19
Tangshan	2	0	11	13
Lanzhou	3	6	10	19
Wenzhou	2	1	10	13
Total	**208**	**345**	**526**	**1,079**

Stable rental of stores

By the end of the reporting period, 1,044 stores were under lease while 35 stores were self-owned. Leasing arrangements, under prevailing practice, generally do not require up-front capital investment, but allow flexibility during the course of store expansion.

During the reporting period, the rental expense accounted for approximately 4.38% of the revenue, up 0.48 percentage points as compared to 3.90% in the corresponding period in 2010. Of the 1,044 leased stores of the Group, 71, 99 and 88 lease agreements will be expiring in 2012, 2013 and 2014, respectively.

By the end of the reporting period, the 35 self-owned stores accounted for 5.57% of the Group's total floor area, or approximately 210,000 sq.m., most of these were situated on the major commercial districts of municipalities like Beijing and Shanghai.

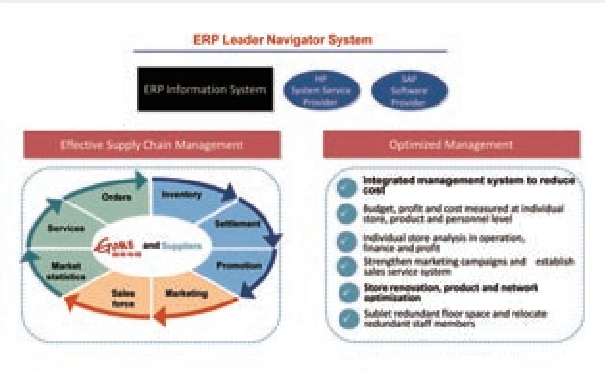
Rapid Construction of information infrastructure

The new ERP Project, which facilitates the Group's business transformation and information system development, was successfully implemented nationwide on 1 November 2011. The new ERP system is the pioneer in China's retail industry that enables the Group to monitor its operations by individual stores, individual merchandise items and individual staff. While enhancing the core competence of the Group, the new

Through the contracted and self-owned after-sales service outlets, the Group was able to provide to the customers enjoyable shopping experience before, during and after the purchases, thus enhanced customer satisfaction, the brand name and the brand image.

ERP has also forged a brand new platform between the Group and its suppliers for information sharing and thus creating synergies.

The core competence of a professional retail enterprise relies on its ability to management its customers, supply chains, merchandises, store network and back-office system. The new ERP system laid down a foundation that enables the Group to formulate a business model through operation by merchandise and operation by customers. It will also help in monitoring the entire business cycle by budgeting control and optimizing resources allocation in order to reduce cost and enhance operating efficiency.



The advanced features of the new ERP system will benefit the Group gradually through continuous refinement and optimization as well as training of the operating staff. The successful upgrade of the information infrastructure will strengthen the management capability of the Group to enable a win-win situation among customers, manufacturers and retailers This will allow the Group to become a sustainable, healthy and robust international retail enterprise.

Strengthening E-Commerce

During the past few years, the scale of online business

in China has been developing rapidly and it is expected to keep a fast growing pace in the future. Comparing with the developed countries, there is a huge room for development in the e-commerce market in China both in terms of scale and penetration rate. As such, 2011 marked the first year of e-business for GOME and we will capitalize on the competitive advantages of our existing retail network and infrastructure to develop the e-commerce.

During the reporting period, the Group has launched its e-commerce platform acquired at the beginning of the year, namely www.COO8.com and re-packaged the existing online shop (www.gome.com.cn) in accordance to the new online business marketing strategies, in order to enhance our brand recognition and increase market share.

In 2012, the Group will increase the intensity in the development of e-commerce and introduce more high margin products, such as OEM and ODM products, online. On the other hand, the Group will continue to enhance the competitiveness and profitability of the e-commerce platform through cooperation with stakeholders and integration of its well-established supplier network, distribution channel, after-sales service system, membership management and ERP information infrastructure to strengthen our leading position, market share and core competence in the B2C market.

Stable Supplier Relationships

In 2011, the Group continued to strengthen the relationship with suppliers through optimization of supply chain and promotion of information sharing with suppliers. The GOME Supplier Platform (the "GSP") was also introduced together with the new ERP system. The GSP provides information-sharing platform for various enterprises along the supply chain, which allows full integration of procurement, sales, inventory, logistics, financial, and after-sales services information sharing with the suppliers, as a result, it improves overall supply chain efficiency, operating efficiency and supplier relationships. Besides, the Group was able to accelerate the speed of re-stocking, settlement, inventory turnover and accounting based on the business reality to create synergies.

The Group has strengthened its strategic cooperations with the suppliers. The renowned brands such as Haier, Samsung, LG, Sharp, Midea and Meiling have entered into new strategic alliances with the Group. During the reporting period, purchases from the Group's five largest suppliers (according to brands) accounted for approximately 33.81% of the total procurement.

Solid Bank Relationships

The Group has successively formed long-term, stable and trustworthy relationships with many domestic and international banks since its inception. During the reporting period, the Group focused and closely cooperated with the banks, as the result, preferential terms were secured and overall credit lines have reached historic highs. In addition, through close cooperation with various local banks, the Group has achieved satisfactory results in increasing deposit rates, reducing cash management risk and handling charges of the stores, it created a favorable financial environment for the development of the Group.

Premier Customer And After-sales Service Systems

(1) Logistics

During the reporting period, the Group has continued to refine the warehouse network that supports its retail stores, and established regional logistics centers with a larger geographical coverage in key commercial areas. The Group also optimized the planning and control of various procedures for deliveries from suppliers to customers, including information systems, warehousing and order delivery, thus enhancing management effectiveness.

By the end of the reporting period, the Group had 136 delivery centers, including 30 in first-tier markets and 106 in second-tier markets. These delivery centers occupied a total area of 674,000 sq.m. approximately.

(2) After-sales services

During the reporting period, the Group optimized and standardized after-sales service network to improve the centralized management of contracted after-sales service outlets. By the end of the reporting period, cooperative agreements with a total of 3,175 service outlets were entered to carry out high-quality home appliances installation and maintenance services. Besides, through the self-established after-sales service team in 263 self-owned service outlets, the Group carried out home appliances maintenance services and sales of accessories, and achieved a faster respond rate to customer orders.

Through the contracted and self-owned after-sales service outlets, the Group was able to provide to the customers enjoyable shopping experience before, during and after the purchases, thus enhanced customer satisfaction, the brand name and the brand image.

(3) **Membership service**

During the reporting period, the Group improved its membership services in various aspects. Through enriching exclusive member's privileges including, "reward points for cash coupons", "reward points raffle" and "charity donation for members", the Group was able to enhance loyalties and overall satisfaction of our members. In order to maintain customer relationships and foster customer loyalties, the Group has also established and integrated a database of platinum members, and provided one-on-one services to these members.

During the year, the Group had approximately 16,120,000 new registered member and total registered members reached a new high of approximately 49,910,000.

(4) **Extended warranty service**

The Group has introduced extended warranty services and gained widespread support and recognition from consumers. In 2011, all brands under the Group have entered into cooperation arrangements with top international extended warranty service providers. Customers can enjoy extended warranty services through our 24-hour service hotlines (GOME 400-811-3333; China Paradise 400-811-3336 and Dazhong Appliances 400-811-3339). Extended warranty service is another value-adding service that helps to increase the competitiveness of modern home appliance retailers and assist the manufacturers in solving warranty related issues. During the reporting period, the average nationwide extended warranty rate was approximately 4.59%, realised extended warranty income was approximately RMB149 million.

(5) **Call centers**

During the reporting period, the Group has carried out comprehensive upgrade on the call centers services system. We have commenced to provide services classified by different product categories, established fast lane in resolving problematic orders and one-hour rapid response mechanism. We have implemented centralised management on customer enquiries and knowledge database and increased the transparency of delivery, installation and maintenance processes. Call centers has provided various multi-channel services to consumers, which include telephone, audio, e-mail, facsimile and short messages. This is believed to be more efficient than traditional services.

Creating higher values and sharing them among our consumers, stakeholders, the Company and our employees with the aim of achieving a win-win situation is the core principle and the core value of the Group in operating its business.

Strengthened Corporate Governance

The Group has been continuously improving its corporate governance. On 10 June 2011, the board of directors of the Company ("Board") made a change to the composition of the Board. After the change, the Board consisted of two executive directors, four non-executive directors and five independent non-executive directors. This combination not only ensured constructive discussion among the directors and better implementation of the Group's future development strategy, but also further enhanced the corporate governance and the long term development of the Group.

During the year, the Group implemented the new ERP system which will help to improve in areas such as finance, operation, after-sale service, customer service, logistics and distribution systems of the Group. The new ERP system will increase the transparency of various management systems and policies within the Group that minimise human errors. It will also allow faster flow of information within the Group that enable timely decisions to be made, orders to be executed and results to be checked. Leveraging on the modernized management concept and the efficient execution tools, the Group will continue to enhance its corporate governance.

In-depth Corporate Culture

The Group understands that "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 company in the retail home appliances sector, and striven to succeed in setting the standard and model for home electrical appliances chain retailers in China.

The core principle and the core value of the Group is creating higher values and sharing them among our consumers, stakeholders, the Company and our employees with the aim of achieving a win-win situation. As the leader of the industry, the Group has vigorously fulfilled its social responsibility.

With respect to suppliers, the Group cooperates and develops sincerely with renowned domestic and international home appliances manufacturers. Trust became an important foundation of stable cooperation between all parties, which is also an important force in promoting a healthy development of the home appliances industry in China. With respect to customers, the Group has pursued a mission of "Perfecting the Quality of Life", following the principle of high volume low margin to create valuable products and excellent shopping experience to customers through cost control and procedure optimization. With respect to employees, the Group has established career platforms and development paths within the organisation to enable its employee to promote and develop; to create maximum value for fellow employees, the society and the Company. Probity, responsible and creating value are the general expectation to fellow employees. Lead and attracted by our corporate culture, GOME and its staff shared the same value in their interests, career development and future.

The building of enterprise culture is a continuous process. To respond to the society and consumers' increasing expectations towards the corporate culture, the Group will continue to strengthen and refine itself to become one of the best and reputable enterprises in China.

Excellent Talents

The Group always put human resources management and development as a core of our business. As the scale of business has expanded and developed over the years, the need for precision management becomes more important. In order to build a high-quality team of management and staff, the Group has constantly increased the allocation of resources over the past few years and provided comprehensive knowledge and business skill trainings to our staff at all levels.

In year 2011, the Group has achieved favorable results in areas such as the training of instructors, the constant upgrading of training tools, and building up of certification system for staff who have achieved the relevant qualifications in their roles. During the implementation of GOME's new ERP system in 2011, training for elite instructors was carried out and the comprehensive training and certification system for all operation staff was implemented; all of these guaranteed the smooth switching from old system to the new ERP system, while at the same time nurturing a team of high-quality instructors and business talents.

At the 3rd China Enterprise E-Learning Forum & Expo held in November 2011, GOME was the only entrant honored with the "Best Application of Online Examinations Award" in 2011 for its "2011 New ERP National Positional Training Certification Examination". GOME also received "Short-listed for Best Application of Innovative Technology Award" in 2011 for its "2011 ERP National Online Training Assima" project. Advanced training systems and talent cultivation plans allow GOME to nurture a pool of talent for ongoing growth.

Financial Review

Revenue

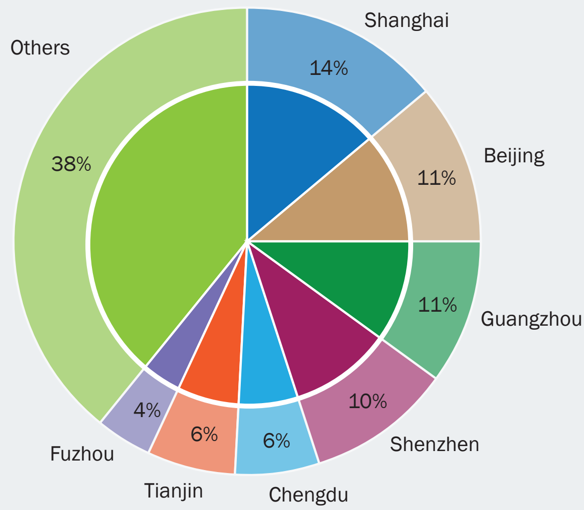
During the reporting period, the Group's revenue was approximately RMB59,821 million, up approximately 17.50% from RMB50,910 million in 2010. The Group's weighted average sales area was approximately 3,302,000 sq.m.. The Group's revenue per sq.m. was approximately RMB18,117, relatively the same as compared to RMB18,621 in the corresponding period of 2010.

Aggregate sales of 661 comparable stores recorded a revenue of approximately RMB46,957 million this year, up 3.06% from RMB45,564 million in the corresponding period of 2010. 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 RMB27,120 million, accounting for 45.34% of the total revenue.

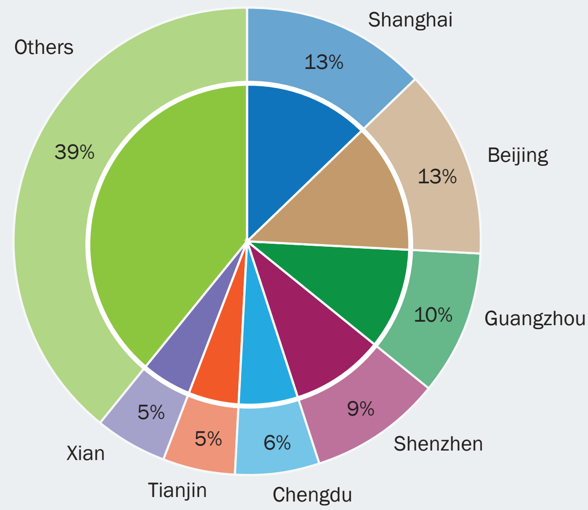
Cost of sales and gross profit

Cost of sales of the Group was approximately RMB52,264 million in the reporting period, accounting for 87.37% of the total revenue, lower than the proportion of 88.37% in the corresponding period of 2010. Gross profit was approximately RMB7,557 million, up approximately 27.67% from RMB5,919 million in the previous year. The gross profit margin was 12.63%, increased by 1 percentage point as compared to 11.63% in the previous year. The management believes that the sustainable growth in gross profit margin reflected the successful implementation of the Group's strategy in respect of product differentiation, product management and product pricing.

SALES REVENUE OF THE GROUP BY REGION:

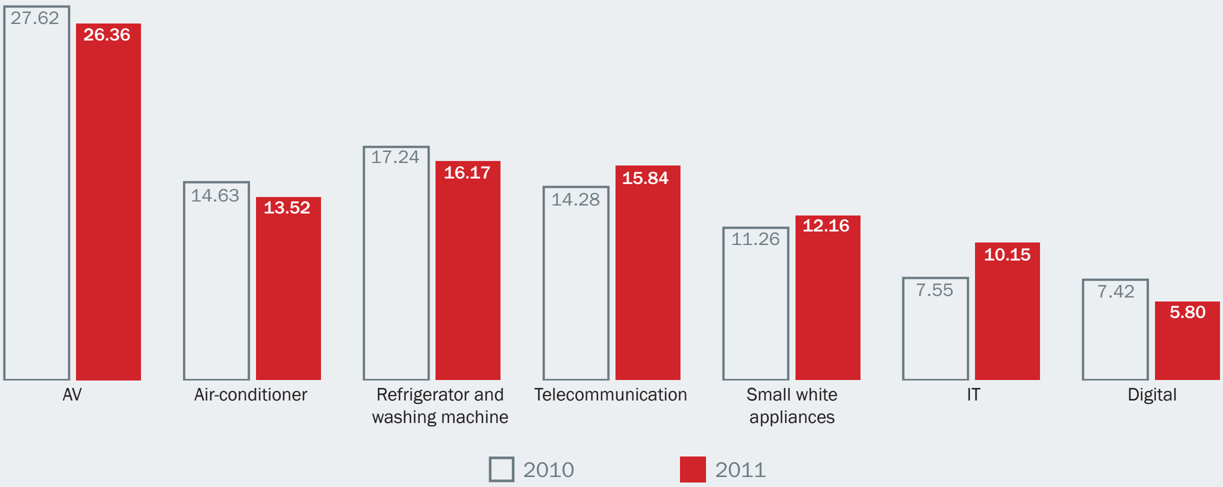


2010

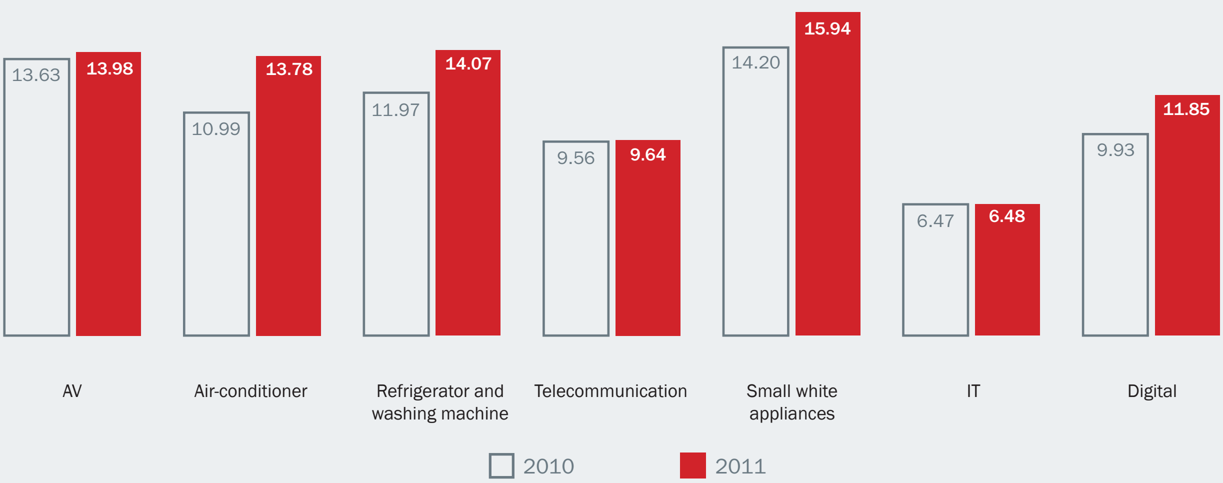


2011

PROPORTION OF REVENUE FROM EACH PRODUCT CATEGORY OVER TOTAL REVENUE:



THE GROSS PROFIT MARGIN OF EACH PRODUCT CATEGORY IS AS FOLLOWS:



Other income and gain

During the reporting period, the Group recorded other income and gain of approximately RMB3,302 million, representing a decrease of 4.07% over that of RMB3,442 million in 2010. The percentage of income from suppliers over sales revenue was 3.48%, slightly lower than 4.26% for the previous year, which was mainly due to the continuing effort in the standardization of contract terms between the Group and the suppliers in the reporting period, which caused more income to be directly reflected in gross profit.

Summary of other income and gain:

	2011	2010
As a percentage of sales revenue		
Income from suppliers	3.48%	4.26%
Management and purchasing service fees:		
– from the Non-listed GOME Group	0.42%	0.49%
– from Dazhong Appliances	0.17%	0.20%
Management fees for air-conditioner installation	0.22%	0.27%
Gross rental income	0.38%	0.37%
Government grants	0.28%	0.27%
Other income from telecommunication service providers	0.20%	0.16%
Others	0.37%	0.74%
Total	5.52%	6.76%

Consolidated gross profit margin

During the reporting period, the Group's consolidated gross profit margin reached 18.15%, largely the same as compared to 18.39% for the previous year. The Group will continue to improve its consolidated gross profit margin by product differentiation operations.

Operating expenses

During the reporting period, the Group's total operating expenses (including selling and distribution costs, administrative expenses and other expenses) were approximately RMB8,535 million, accounting for 14.27% of total sales revenue, up 1.20 percentage points as compared to 13.07% in 2010.

Summary of operating expenses:

	2011	2010
As a percentage of sales revenue:		
Selling and distribution costs	11.54%	10.05%
Administrative expenses	2.04%	2.29%
Other expenses	0.69%	0.73%
Total	14.27%	13.07%

Selling and distribution costs

During the reporting period, as a result of store network expansion and development of the e-commerce platform, the Group's total selling and distribution costs increased to approximately RMB6,904 million. The percentage over revenue was 11.54%, up 1.49 percentage points as compared to 10.05% in the corresponding period of 2010.

Summary of selling and distribution costs:

	2011	2010
As a percentage of sales revenue:		
Rental	4.38%	3.90%
Salaries	2.94%	2.33%
Utility charges	0.68%	0.73%
Advertising expenses	1.51%	1.21%
Delivery expenses	0.68%	0.55%
Others	1.35%	1.33%
Total	11.54%	10.05%

Administrative expenses

With the continuous expansion of the Group's scale of operations and the need to support its enhanced management, the administrative expenses were slightly increased. During the reporting period, the Group's administrative expenses were approximately RMB1,219 million, higher than that of RMB1,165 million in the corresponding period of 2010 by 4.64%. The percentage over revenue was 2.04%, reduced by 0.25 percentage points as compared to 2.29% in the corresponding period of 2010. The Group has always been strengthening its control over administrative expenses in order to maintain its administrative expenses at a relatively low level in the industry.

Other expenses

Other expenses of the Group mainly comprised, among others, business tax and bank charges, increased from RMB375 million in 2010 to approximately RMB413 million during the reporting period. The percentage over sales revenue was 0.69%, slightly decreased as compared to 0.73% in 2010.

Profit from operating activities

As a result of the increasing operating expenses, the Group's profit from operating activities decreased by 14.15% during the reporting period from RMB2,706 million in 2010 to approximately RMB2,323 million this year.

Net finance income/loss

During the reporting period, finance costs were reduced as a result of a decrease in the interest expenses on the convertible bonds. The Group's net finance income was approximately RMB159 million, as compared to a net finance loss of RMB103 million in 2010.

Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB2,475 million, accounting for approximately 4.14% of the sales revenue, representing a slight decrease of 1.39% as compared with RMB2,510 million in 2010.

Income tax expense

During the reporting period, the Group's income tax expense was increased from RMB548 million in 2010 to approximately RMB673 million. 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 RMB1,840 million, representing a decrease of 6.22% as compared with RMB1,962 million for the previous year. Net profit margin was 3.08%, decreased by 0.77 percentage points as compared to 3.85% for the previous year. Basic earnings per share were RMB0.109, representing a decline of 14.17% as compared with RMB0.127 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 RMB5,971 million, slightly decreased by 4.19% as compared with RMB6,232 million as at the end of 2010.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB9,625 million, up 19.05% as compared to RMB8,085 million in 2010. The inventory turnover period slightly increased by 3 days from 59 days in 2010 to 62 days, which was mainly attributable to the expansion of second-tier markets and the longer logistics supply chain.

Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB3,728 million, up 52.41% from RMB2,446 million as at the end of 2010. The main reason for the increase was that the Group capitalized on state policy and increased 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 RMB17,140 million, up 1.42% from RMB16,900 million as at the end of 2010. Trade and bills payables turnover days were approximately 119 days, decreased by 13 days as compared to 132 days for the previous year.

Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB861 million, representing a 55.14% increase as compared with approximately RMB555 million in 2010. The increase was mainly due to additional expenses arising from opening new stores, the remodelling of stores and the purchase of hardware equipment relating to ERP Project by the Group during the year.

Cash flows

During the reporting period, the Group's net cash flows from operating activities amounted to approximately RMB383 million, compared with net cash flows of RMB3,873 million in 2010.

Net cash flows used in investing activities amounted to approximately RMB736 million, representing an increase of 33.09% as compared with RMB553 million in 2010, as the Group increased the capital expenditure for store network expansion, store transformation and ERP Project during the year.

Net cash flows from financing activities amounted to approximately RMB107 million, while net cash used in 2010 was RMB3,102 million. The amount used in 2010 mainly represented the cash paid for redemption of convertible bonds.

Dividend and dividend policy

The Board does not recommend the payment of a final dividend so as to preserve capital for funding needs of the Group. During the year, an interim dividend of HK$2.7 cents (equivalent to RMB2.2 fen) per share was paid and the total dividend for the year was HK$2.7 cents (equivalent to RMB2.2 fen) per share.

Currently, the Board anticipates that the dividend payout ratio will be maintained at not more than 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, business environment and availability of investment opportunities.

Contingent liabilities and capital commitment

Except for the guarantees of approximately RMB476 million given to banks in connection with bill facilities granted in favour of Dazhong Appliances, which was not provided in the statement, there were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitments of approximately RMB119 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 the Renminbi has been appreciating against HK dollars and US dollars, the Group's short-term HK dollar and US dollar 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 poses a 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 2011, the total borrowings of the Group, being convertible bonds, amounted to about RMB2,112 million. Pursuant to the bond subscription agreement, it is redeemable at the option of the bondholders in 2012. The Group's financing activities continue to be supported by its bankers.

As at 31 December 2011, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to RMB2,112 million over total equity amounting to RMB15,918 million, slightly decreased to 13.27% from 13.82% as at 31 December 2010.

Charge on group assets

As at the end of 2011, the Group's bank acceptance credit and bills payable were secured by the Group's time deposits amounting to RMB4,389 million and certain inventories with a carrying value of RMB540 million and certain buildings and self-owned properties of the Group with a carrying value of RMB2,241 million. The Group's bills payable amounted to RMB9,963 million.

Outlook and Prospects

In order to better prepare for the opportunities and challenges in 2012, the Group has formulated strategic plans which revolve around core targets such as maintaining sustainable growth, controlling costs, and enhancing profitability, emphasizing the strategic priorities of expansion in scale and refined operations. We will also focus on multi-brand development, strengthening the store network, continuously steering of the business model transformation and innovation, and will put more effort on the rapid development of our 3C business. We will continue to build and optimize our information systems. Capitalizing on the highly efficient IT platform, the Group will enhance our centralized and standardized management capabilities, continue to improve in our supply chain, merchandise capability as well as logistics and after-sales services, in order to enhance our operational efficiency and core competitiveness, secure stable and sustainable growth of the Group's results and continue to perform our leading role in the development of the home appliance retail industry.

(1) Enhancing Same-Store Growth and Network Expansion

In 2012, the Group will adopt an operational strategy which emphasizes both store network expansion as well as same-store growth enhancement. In the first-tier cities, we continue to optimize the store network and enhance the operation quality of individual stores and the same-store growth by various measures such as the transformation of existing stores, optimization of product mix and self-driven marketing. At the same time, we accelerate the store network development in prime locations in the first-tier markets as well as the second-tier markets. These will further enhance the competitive edge of GOME in network coverage when compared with competitors. In 2012, the Group will also emphasize multi-brand promotion. By utilizing well-known brands currently owned or used by the Group such as GOME, China Paradise and Dazhong, the Group will execute multi-brand strategy in areas with high market potential, allowing the Group to capitalize on our advantages of multiple brands to strengthen our leading position.

Additionally, the Group will execute product management to enrich our product categories and implement membership programs to enhance customer loyalty. These measures will ultimately increase the store performance and profitability.

(2) Increase Efficiency through Operational Enhancement

2012 will be another year for the Group to transform from operation by location and suppliers to operation by merchandise and customers. Leveraging on the extensive store network, the support and supervisory system, the Group strives for a better connection with suppliers and consumers to conduct a real-time analysis and assessment on the performance of individual stores, products and staff members. These will enhance the synergistic benefits of the supply chain and enhance the ability to operate by products and customers. We aim at rationalizing our internal operation and improving the coordination with different sectors of the industry to enhance our operational efficiency and to reduce operating costs.

The Group will also spare no efforts in achieving a consistent increase in store efficiency through optimization of store area and personnel structure as well as refining the budget with respect to individual stores, products and persons. Through the store assessment system which focuses on four key areas including store area, personnel, rental and sales, the Group will be able to develop the best model to standardize the allocation of store resources. The Group will also adopt sales per capita as a yardstick to develop high-performing bench marks for stores in order to increase overall store efficiency and human resources efficiency.

In addition, the Group will reinforce a coordinated management of the supply chain and combine centralized and decentralized procurement to improve its business model. In terms of product management, the differentiated product operation remains at the core development strategy of the Group. GOME will continue to focus on enriching ODM and OEM products to increase its profits.

(3) Integration of E-commerce

With the immense business opportunities and challenges brought by e-commerce, the Group will start to position e-commerce as the key area of development. At this stage, we will continue to devote more resources to e-commerce, fully utilize the advantages delivered by the "B2C + physical stores" e-commerce integration and implement the dual-brand strategy based on the GOME online shopping mall and the COO8 shopping website. At the same time, the Group will continue to strengthen the cooperation with other e-commence platforms. With our own dual platforms, we will actively increase our market share in the e-commerce segment.

(4) Strengthening 3C Business

In 2012, the Group will continue to strengthen the management and operation of various aspects such as the sale of 3C accessories, telecommunication business, product management capability and store operating capabilities.

The Group has the most comprehensive retail network and the most extensive customer base in the industry. In 2011, the Group fostered new strategic alliances with China Telecom and China Unicom nationwide which enabled the Group to absorb more 3G smartphone users and created a new income driver for the Group. We believe in 2012, by effectively leveraging on our own retail network coverage as well as various promotional measures and versatile promotional packages, our customer base will expand and profitability from 3C business will be strengthened.

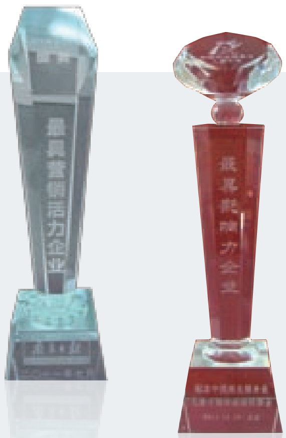
Also, the Group will continue to transform from operation by suppliers to operation by merchandise, to optimize the product mix carried by our stores. Such measures will certainly enhance the attractiveness of our stores to customers and facilitate the promotion of 3C differentiated products, thus increasing the sales from 3C products and hence our overall profitability.

(5) Strengthening the Infrastructures

The sustainability of the Group relies on the enhancement of our core competitiveness through infrastructures establishment such as the integration and enhancement of IT systems, logistics and after-sales services.

In 2011, we successfully launched ERP system. On logistics front, the new ERP system enables seamless integration of the logistics and distribution centers, boosting supply chain efficiency while reducing costs. For after-sales services, we will continue to upgrade the E-fast service centers, expand self-owned service network and enhance extended warranty programs to improve customers' overall shopping experiences. These efforts allow the Group to increase customer satisfaction, and hence our brand reputation and image.

In 2012, with the new ERP system, the Group will improve its logistics development and after-sales service coverage. Other key focus areas are the effective resource sharing of online and offline business as well as the enhancement of operational efficiency and profitability through the construction and integration of our own effective support systems.



December 2011

- Millward Brown, a marketing research institution of Chinese-foreign equity joint venture, which works under WPP, the world leader in marketing communications, issued the "2011 BrandZ Top 50 Most Valuable Chinese Brands" in Beijing, which short-listed GOME. Owing to forward-looking strategy of utilizing social media in the Internet era, GOME was also listed in the Top Ten of China's "Leading Brands in Social Media".

- GOME was the only home appliances and consumer electronics retailing business being awarded at the Opening Ceremony and Summit Forum commemorating the Tenth Anniversary of China's Business and Service Industries Entrance to the World Trade Organization.

- GOME Appliance Human and Resource Centre was granted the "Best Example" award at the 7th International Conference on Work and Learning in the category of Specific Practiced Cases in Chinese Enterprise, and the "Best Practices of Retaining Talent" award by the 2011 "HRA Awards" in the category of human resources.

- GOME Appliance, along with the China Chain Store & Franchise Association, China Household Electrical Appliances Association, China Consumers' Association, SAP, Hewlett-Packard, McKinsey & Company and over a hundred global home appliances manufacturers jointly convened a conference in Tianjin on the successful implementation of the Navigation ERP Information System.

November 2011

- On the "2011 China's Internet Gathering" jointly held by The Internet Society of China, QQ.com and others, GOME online shopping mall (www.gome.com.cn) clinched the award of "Leading Enterprise for Electronic Commerce in China".

- On the 9th Annual Meeting of Chinese Enterprise Competitiveness held by the China Business and the Institute of Industrial Economics of China Academy of Social Sciences, GOME Appliance was honored the "Most Competitive Enterprise Award" for the retail industry in China.

- On the 3rd China Enterprise E-Learning Forum & Expo, GOME Appliance was the only enterprise granted the 2011 "Best Application of Online Examinations Award", along with another massive accolade of the 2011 "Short-listed for Best Application of Innovative Technology Award".

- On the 13th China Retail Industry Convention & Chain Store Expo, GOME Appliance garnered the award of "2011 Retail Innovative Award" for the launch of "Xin Huo Guan" a new style megastore model with comprehensive experience.

- On the "2011-2012 China's Consumer Trend for Color Televisions Forum" jointly held by GOME Appliance and China Electronics Chamber of Commerce, GOME Appliance placed a massive purchasing order of RMB53.6 billion to fourteen domestic and foreign main stream color television enterprises including Sharp, Sony, Samsung, Sanyo and others. This is the largest order in the history of color television industry in China, and is estimated to account for more than one-third of the consumption of color television in China in 2012.

September 2011

- In the Top 50 Listed Asian Enterprises of 2011 published by "Forbes" magazine, GOME Appliance ranked 14th, and GOME was the only listed home appliances retail enterprise in Asia.

- "2011 (17th) China's Most Valuable Brand" was announced in Nanjing, as the representative of the retail industry, GOME Appliance once again topped the list for retail industry.

- Electrolux, the largest brand of consumer appliances in Europe and the global number one kitchen electronic appliance manufacturer, entered a five year strategic alliance with GOME Appliance.

August 2011

- Guangzhou GOME donates RMB2 million to low-income families through the Guangzhou Charity Association.

July 2011

- On the forum of "Growth of Civilization" – the 10th Anniversary of China's Home Appliances Industries Entrance to the World Trade Organisation held by Nanfang Media Group, GOME Appliance was granted the "Vitality in Marketing" award in recognition of its innovative marketing strategies including consistent low-pricing and brand new consumer experience focus.

- Kantar Retail, a first-class global insight and consultant company, announced the list of the world's Top 50 retail enterprise in the year 2010. GOME Appliance was the only Chinese retail enterprise in the list. This indicates that GOME has not only become the top brand in retail industry in China, but has also secured an important position in the world marketplace.

- Planet Retail, a top global research company on retail industries, announced the 2011 global Top 30 EEO (Electronics, Entertainment and Office Supplies) retailers list. GOME Appliance ranked 11th in the list, and was the top brand of the home appliances retail industry in China.

- GOME Appliance entered a strategic cooperation agreement with Tesco Property, a world famous enterprise. GOME and its home appliances will be sold in the "Lifespace 樂都匯" shopping center under Tesco Property's management.

June 2011

- The pilot studies of the new ERP systems of GOME Appliance were successful in Henan and Hebei, which marked the beginning of the official implementation of GOME ERP Leader Navigation Project, and has a substantial meaning in the history of informatization of GOME.

- In the Conference of 2011 C-BPI (China Brand Power Index) Top Brand of the Industry held by China Brand Research Center, GOME Appliance, with a C-BPI score of 645.7, was awarded the "2011 The Top Brand of C-BPI Electrical Appliances City".

April 2011

- GOME and Sanyo Electric Co., Ltd entered a five year in-depth cooperation agreement, both parties will share information in consumer demands, and seek in-depth cooperation in areas such as product research and development, sales and promotion, sales management, after-sales services and others.

- GOME online shopping mall (www.gome.com.cn) was newly launched. GOME took the initiative and implemented an innovative e-business model featuring the fusion of "B2C+physical stores", thus became the first online business platform in the industry which is built on consumer demands.

- In the selection of "Best Practice in Talent Development of Chinese Enterprises 2010" held by "Training magazine" of Xinhua Daily Group along with more than ten professional institutions such as National School of Development of Peking University, School of Business of Renmin University of China and others, GOME Appliance was granted the "Best Company for Talent Development in China" award.

March 2011

- GOME was conferred the "Top 10 Self-Owned Brands in China Commercial Chain Industry Trusted by Global Consumers" by the China Top Self-Owned Brands International Union.

- The 8th GOME employee annual meeting was convened in Beijing, of which the theme was "Leading ahead in 2011".

January 2011

- GOME was granted the 2010 Gold Medal of Marketing by Sohu.com.

INFRASTRUCTURE INTEGRATION EFFICIENCY ENHANCEMENT

GOME spare no effort to establish itself to a first-class and reputable enterprise in China

Directors and Senior Management Profile

The Group establishes its supporting platform with its powerful information system, outstanding logistics facilities and after-sales service network. Overall efficiency will be significantly enhanced through effective integration of various resources.

Directors and Senior Management Profile

Chairman

Mr. ZHANG Da Zhong, aged 63, 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 late 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. NG Kin Wah, aged 52, 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 42, has been an executive Director of the Company and the Vice President of the Group since December 2010 and has been recently re-designated as the Senior Vice President of the Group in March 2012 from the Vice President of the Group, 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 (中國稅務師資格證書) 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 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 until May 2011. Between 2001 and 2011, 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 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). Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited (國美控股集團有限公司), which company is owned or controlled by Mr. Wong Kwong Yu, a controlling shareholder of the Company, and since June 2011, has been appointed as a director and vice chairman of Sanlian Commercial Co., Limited (三聯商社股份有限公司) (a company listed on the Shanghai Stock Exchange).

Non-Executive Directors

Mr. ZHU Jia, aged 49, 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 the Hong Kong Stock Exchange. Mr. Zhu has been appointed as a non-executive director of Sunac China Holdings Limited since September 2009, a non-executive director of Greatview Aseptic Packaging Company Limited since July 2010 and a non-executive director and the chairman of the board of Clear Media Limited since August 2011 (the above three companies are all listed on the Hong Kong Stock Exchange). Mr. Zhu is also an independent director of Youku.com Inc. (a company listed on the New York Stock Exchange) since November 2007.

Mr. Ian Andrew REYNOLDS, aged 39, 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 44, 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.

Independent Non-Executive Directors

Mr. SZE Tsai Ping, **Michael**, aged 66, 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 ceased to be a member of the Securities and Futures Appeals Tribunal in Hong Kong in April 2011. 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 was a non-executive director of Burwill Holdings Limited (a company listed on the Hong Kong Stock Exchange) between June 2000 and September 2011. He has been appointed as an independent non-executive director of Greentown China Holdings Limited since June 2006, and 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.

Directors and Senior Management Profile

Mr. CHAN Yuk Sang, aged 66, 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 the 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 the Hong Kong Stock Exchange, and has been appointed as an independent non-executive director of Imagi International Holdings Limited and Opes Asia Development Limited (both companies listed on the Hong Kong Stock Exchange) since 11 May 2010 and April 2011 respectively.

Mr. Thomas Joseph MANNING, aged 56, 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 the New York Stock Exchange. Formerly, he was an independent non-executive director of Bank of Communications Co., Ltd., a company listed on the 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 57, 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, In addition, Mr. Lee has been appointed as an independent non-executive director of Tibet 5100 Water Resources Holdings Ltd. (a company listed on the Hong Kong Stock Exchange) and of CITIC Securities Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) since March and August 2011 respectively. Mr. Lee was an independent non-executive director of Sino Vanadium Inc. (a company listed on the TSX Venture Exchange in Canada) between October 2009 and December 2011. Mr. Lee has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Mr. NG Wai Hung, aged 48, is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the areas of securities law, corporate law and commercial law in Hong Kong and China trades and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies in Hong Kong. Mr. Ng is an independent non-executive director of HyComm Wireless Limited from January 2008, Fortune Sun (China) Holdings Limited from June 2006 and Tech Pro Technology Development Limited from April 2011, all being companies listed on the Hong Kong Stock Exchange. Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King

Stone Energy Group Limited) from September 2008 to February 2010, KTP Holdings Limited from November 1999 to February 2011 and Tomorrow International Holdings Limited (currently known as Talent Property Group Limited) from March 2000 to January 2012, all being companies listed on the Hong Kong Stock Exchange.

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. WANG Jun Zhou, aged 50, has been the President of the Group since 28 June 2010. 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 and an executive Director of the Company between December 2008 and June 2011. 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 Elitevision 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 and the chairman of the board of Sanlian Commercial Co., Ltd., a company listed on the Shanghai Stock Exchange.

Ms. WEI Qiu Li, aged 44, has been recently re-designated as the Senior Vice President of the Group in March 2012. Before the re-designation, Ms. Wei had been the Vice President of the Group since November 2006 and was an executive Director of the Company between January 2009 and June 2011. 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. FANG Wei, aged 40, has been re-designated as the Chief Financial Officer of the Group since September 2011. Before the re-designation, Mr. Fang had been the Acting Chief Financial Officer of the Group since November 2008. He is also 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 北京朝歌寬帶數碼科技有限公司. 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 46, has been recently re-designated as the Senior Vice President of the Group in March 2012, mainly responsible for the the operation system management of the Group. He is also a director of various subsidiaries of the Company. Before the re-designation, Mr. Li was the Vice President of the Group. 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 the chairman and a member 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. He is now studying the course for the Executive Master Degree in Business Administration (i.e. EMBA) at China Europe International Business School (中歐國際工商學院). 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 numerous awards such as the "Special Contribution Award" and the "Outstanding Leader Award" by the Group. Mr. Li was also a torcher for the Year 2008 Beijing Olympic Games and the Year 2010 Guangzhou Asian Games.

Directors and Senior Management Profile

Mr. MU Gui Xian, aged 39, has been recently re-designated as the Senior Vice President of the Group in March 2012, mainly responsible for the management of the information system, e-commerce, logistics services and OEM/ODM business of the Group. Before the re-designation, Mr. Mu was the Vice President of the Group. 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).

Mr. SU Xian Hua, aged 44, has been recently re-designated as the Senior Vice President of the Group in March 2012, mainly responsible for the business management, procurement management as well as the advertising strategy and promotion of the Group. Mr. Su joined the Group in 2002 and had previously held positions as deputy general manager of sales centre at the Group's headquarter as well as general managers of the Group for different regions such as the Northern China Greater Region, Region 2 of Eastern China, Shangdong Region, Qingdao and Jinan. He has 18 years of experience in home electrical appliances industry with extensive marketing and management experience, and is innovative and thoughtful in business operation and management while handling various affairs of the Group. Mr. Su has been granted numerous awards such as the "Group's Outstanding General Manager for Greater Region of the Year" and the "Group's Outstanding General Manager of the Year" by the Group for his outstanding performance, and is entitled as a Senior Engineer (高級工程師職稱) by the Qingdao Municipal Personnel Bureau (青島市人事局).

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 2011.

Principal Activities

The Group is principally engaged in the retailing of home 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 122.

Financial Statements

The results of the Group for the year are set out in the Consolidated Income Statement on page 83 and Consolidated Statement of Comprehensive Income on page 84.

The state of affairs of the Group as at 31 December 2011 is set out in the Consolidated Statement of Financial Position on pages 85 and 86.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 89 to 90.

Share Capital

Details of the movement in share capital of the Company are set out in note 30 to the financial statements on page 164.

Dividends

An interim dividend of HK$2.7 cents (equivalent to RMB2.2 fen) per ordinary share, amounting to a total of approximately RMB382,483,000, was paid to the shareholders of the Company during the year.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011.

Annual General Meeting

A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

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 169 to 171 and in the consolidated statement of changes in equity.

As at 31 December 2011, the Company’s reserves available for distribution to shareholders of the Company amounted to negative RMB164,667,000 (2010: RMB761,062,000) of which RMB nil 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 133 and 135.

Major Suppliers and Customers

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

– the largest supplier	9.64%
– five largest suppliers combined	33.81%

As at 31 December 2011, Mr. Zhang Da Zhong, the Chairman of the Board and a non-executive Director of the Company, together with his associate, held immaterial interests in the listed shares of two of the above five largest suppliers, representing approximately 0.23% and 0.05% of the total issued listed shares of such two suppliers respectively.

Save as disclosed above, 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 RMB5.84 million.

Directors

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

Executive Directors

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

Non-Executive Directors

Mr. ZHANG Da Zhong	(appointed with effect from 10 March 2011)
Mr. ZHU Jia	
Mr. Ian Andrew REYNOLDS	
Ms. WANG Li Hong	
Ms. HUANG Yan Hong	(retired with effect from 10 June 2011)

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)
Mr. NG Wai Hung	(appointed with effect from 10 June 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 24 and 36 to the financial statements on page 154, and pages 174 to 176 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' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company (the "Chief Executive") 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 Directors/ Chief Executive	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Ng Kin Wah	1,200,000 *(Note)*	–	–	–	1,200,000	0.01
Zhu Jia	1,168,920	–	–	–	1,168,920	0.01
Wang Jun Zhou	11,700,000 *(Note)*	–	–	–	11,700,000	0.07

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

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

Save as disclosed above, as at 31 December 2011, none of the Directors, Chief Executive 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 27 March 2012, a maximum number of Shares available for issue under the Share Option Scheme was 431,065,232 Shares (including options for 157,086,200 ordinary shares that have been granted but not yet exercised), representing approximately 2.55% of the issued share capital of the Company as at 27 March 2012.

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 2011, Options to subscribe for an aggregate of 158,586,200 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 2011	Granted during the year	Exercised during the year	Cancelled during the year	As at 31 December 2011 *(Note 1)*	Price of Shares for Options exercised during the year *(Note 5)*
		HK$						*HK$*
Director								
Ng Kin Wah	7 July 2009	1.90	10,000,000	–	(5,000,000)	(3,800,000)	1,200,000	3.61
Chief Executive								
Wang Jun Zhou	7 July 2009	1.90	20,000,000	–	(3,500,000)	(4,800,000)	11,700,000	3.00
Other employees	7 July 2009	1.90	320,974,000	–	(75,297,800)	(99,990,000) *(Note 4)*	145,686,200	3.09
Total			350,974,000	–	(83,797,800)	(108,590,000)	158,586,200	–

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. 108,590,000 Options had been cancelled during the year ended 31 December 2011.

5. The price of the 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.

6. On 5 December 2011, a resolution was passed by the shareholders of the Company to amend the terms of the share options granted and the terms of the Share Option Scheme. As at 31 December 2011, the revised terms would have the following effects:

   a. 81,076,200 options vested on or before 7 July 2011 will become lapsed and ceased to have any further effect after 15 November 2012.

   b. Up to 15,502,000 options may be exercise commencing from 15 May 2012 and will become lapsed and ceased to have any further effect after 15 November 2012.

   c. Up to 27,128,500 options may be exercise commencing from 15 May 2013 and will become lapsed and ceased to have any further effect after 15 November 2013.

   d. Up to 23,253,000 options may be exercise commencing from 15 May 2014 and will become lapsed and ceased to have any further effect after 15 November 2014.

   e. Up to 11,626,500 options may be exercise commencing from 15 May 2015 and will become lapsed and ceased to have any further effect after 15 November 2015.

   f. In addition to the changing of the exercise periods of the Options, performance targets were added as a new condition for the exercise of the unvested Options above. Such performance targets are to be determined based on the weighted average of revenue and profits generated, new stores opened, special projects and other administrative work undertaken by the grantee, the compliance of the relevant internal and external law and regulations by the grantee and by reference to his/her seniority and job functions within the Group. Any grantee whose performance is assessed to be short of the performance target will have his/her number of unvested Options for vesting in the forthcoming exercise period adjusted downward and cancelled in proportion to the shortfall of his performance assessment to the performance target when such Options are vested.

Interests and Short Positions of Substantial Shareholders

So far as is known to any Director or Chief Executive, as at 31 December 2011, other than the Directors or the Chief Executive 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	32.11
Ms. Du Juan *(Note 2)*	Long position	5,417,539,490	32.11
Shinning Crown Holdings Inc. *(Note 3)*	Long position	4,550,100,000	26.97
Bain Capital Asia Integral Investors, LP. *(Note 4)*	Long position	1,665,546,935	9.87
Bain Capital Investors, LLC *(Note 5)*	Long position	1,665,546,935	9.87
JPMorgan Chase & Co. *(Note 6)*	Long position	1,038,447,936	6.15
	Short position	149,199,919	0.88
	Lending pool	508,720,378	3.01

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 254,306,738 Shares and short position in 149,199,919 Shares in its capacity as beneficial owner, long position in 275,420,820 Shares in its capacity as investment manager, and long position in 508,720,378 Shares in the lending pool in its capacity as custodian corporation/approved lending agent. Of these Shares, long position in 74,473,439 Shares are listed derivatives which will be physically settled, short position in 300,000 Shares are listed derivatives which will be cash settled and long position in 5,000,000 Shares are unlisted derivatives which will be cash settled.

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2011 are set out in note 20 to the financial statements on pages 145 to 150.

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 in compliance with the disclosure requirements under Chapter 14A of the Listing Rules:

(1) The Master Supply Agreement

On 17 March 2005, 國美電器有限公司 (GOME Appliance Company Limited) ("GOME Appliance"), a wholly owned subsidiary of the Company, and 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 entered into a conditional supply agreement (the "Master Supply Agreement") pursuant to which the Group agreed to sell electrical appliances and consumer electronic products to Beijing GOME, from time to time on an at-cost basis for a term of three financial years ended 31 December 2007. 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 certain terms of the Master Supply Agreement was amended and term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) was extended from 31 December 2007 to 31 December 2010.

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) was extended from 31 December 2010 to 31 December 2012, subject to 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. During the year, the total amount of sales made under the aforesaid agreement was approximately RMB793 million.

(2) The Master Purchase Agreement

On 17 March 2005, GOME Appliance and Beijing GOME entered into a conditional purchase agreement (the "Master Purchase Agreement") pursuant to which the Group agreed to purchase 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. 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 certain terms of the Master Purchase Agreement was amended and the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) was extended from 31 December 2007 to 31 December 2010.

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) was extended from 31 December 2010 to 31 December 2012, subject to 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. During the year, the total amount of purchases made under the aforesaid agreement was approximately RMB67 million.

(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 dated 29 July 2004 (the "2004 Purchasing Service Agreement").

The 2004 Purchasing Agreement had subsequently been supplemented and renewed on 4 December 2006 (the "2006 Purchasing Service Agreement") and on 22 June 2009, 昆明恒達物流有限公司 (Kunming Hengda Logistics Company Limited) ("Kunming Hengda"), an 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 charged the Non-listed GOME Group a management fee 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 天津國美商業管理諮詢有限公司 (Tianjin Gome Commercial Consultancy Company Limited) ("Tianjin Consultancy"), a subsidiary of the Company, and Beijing GOME.

The 2004 Management Agreement was supplemented and renewed on 4 December 2006 (the "2006 Management Agreement") and 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"), an 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 RMB35.72 million and RMB35.72 million, which the Company will not exceed for each of the period covered by the Pengrun Lease Agreements in 2011 and 2012. The total rental expense for the year was approximately RMB35.34 million.

In addition, owing to the operational requirements of the Group, on 6 January 2012, GOME Appliance has entered into the New Pengrun Lease Agreement with Beijing Pengrun Property for the renting of additional properties at the Pengrun Building for a term of one year from 1 January 2012 to 31 December 2012. The annual rent (including management fee) payable by the Group under the agreement will be a sum of approximately RMB1.20 million after accounting for the rent free discount under the New Pengrun Lease Agreement, which the Group will not exceed for the period covered by the agreement.

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 RMB13.14 million for the year ending 31 December 2011. The total rental expense for the year was approximately RMB13.14 million.

The Xibahe Lease Agreement has expired on 31 December 2011. To enable the Group to continue to use the Xibahe Property, on 6 January 2012, GOME Appliance and Beijing GOME have entered into the 2012 Xibahe Lease Agreement. Pursuant to the 2012 Xibahe Lease Agreement, GOME Appliance will continue to 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 2012 to 31 December 2012. The annual rent payable by the Group under the agreement will be a sum of approximately RMB14.45 million for the year ending 31 December 2012, which the Group will not exceed for the period covered by the agreement.

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 2011, the Group employed a total of 59,624 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 129.

Commitments

Details of commitments are set out in note 35 to the financial statements on pages 172 and 173.

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 deviation as disclosed in the section headed "Deviation" in the Corporate Governance Report on page 71, 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 68 to 80.

Exchange Rates Exposure

Details of the exchange rates exposure are set out in note 40 to the financial statements on page 186.

Purchase, Sale and Redemption of Shares

Pursuant to the terms of the warrants issued on 1 March 2006 by the Company entitling the holders to subscribe up to an aggregate amount of US$25,000,000 for new Shares (the "Warrants"), an aggregate of 108,790,252 Shares have been issued to the holder of the Warrants on 24 January 2011 by the Company at the exercise price of US$0.2298 per Share. After the exercise of the Warrants noted above, the Company does not have any outstanding Warrants.

During the year ended 31 December 2011, the Company had repurchased its own shares on the Stock Exchange, details of which are as follows:

Month/Year	Number of shares repurchased	Highest price	Lowest price	Aggregate consideration (excluding expenses)
		HK$	*HK$*	*HK$*
October 2011	8,792,000 Shares of HK$0.025 each in the share capital of the Company	2.04 per Share	1.95 per Share	17,831,670
	8,792,000 Shares			17,831,670

The Shares repurchased during the year ended 31 December 2011 were cancelled upon repurchase and accordingly, the issued share capital of the Company was diminished by the nominal value thereof.

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 2011.

Convertible Securities, Options, Warrants or Similar Rights

Save for the share options as set out above and in note 31 to the financial statements and the outstanding convertible bonds as set out in note 29 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2011.

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 2011, Tianjin Consultancy had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2010: 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 was 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 was initially from 14 December 2007 to 13 December 2008 and the interest rate was 6.561% per annum. It has been subsequently renewed and extended in 2008 and in 2009 was extended for a period of two years from 15 December 2009 to 14 December 2011 at the interest rate of 4.86% per annum. It has been further extended for a period from 15 December 2011 to 15 December 2012 during 2011 and the interest rate is 5.90% per annum. As at 31 December 2011, the Advance was RMB3.6 billion and the Advance represented approximately 9.67% 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 191.

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, 27 March 2012

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

Economic conditions

We are a lending chain-store retailer of home appliances and consumer electronic products in China and our turnover is particularly sensitive to changes in economic conditions and PRC consumer confidence. Consumer confidence is affected by, among other factors, general business conditions, stock market and real estate market conditions, as well as by current and expected future global or regional macroeconomic conditions. Although recent data have not shown any significant deterioration in consumer purchases, we cannot assure you that consumer demand will not be impacted by the continuing weakness in the global economic condition or any future deterioration of economic condition in the PRC.

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 bills 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 bills. 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.

Risk Factors

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 other means). During the year ended 31 December 2011, 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.

Intensified competition between traditional retailers and online retailers

The competition of the retail business in China is severe. The Group faces pressure arising from the competition with traditional store retailers, online retailers, suppliers and other retailers. Such pressure may affect the income and profitability of the Group. The competition between the Group and local, regional, domestic or even international chain retailers is not only limited to business, but also extends to the areas of consumers, talents, site of stores, products and other important aspects. At the same time, the suppliers of the Group also supply their products and services to consumers directly. The competitors of the Group are similar to us in terms of their market share in the retail markets of traditional home appliances and consumer electronic products and their financial resources, therefore, the Group may have to further lower the retail prices in order to increase our market share and attract more consumers. The adjustment of retail price may affect the operation results of the Group.

The operation of the ERP information management system

The inventory management, delivery and other operating segments of the Group are largely dependent on the ERP information management system of the Group. If the system of the Group does not operate smoothly or encounters interruption during operation, the business and operation of the Group may be affected.

ERP information management system is the basis for the efficient operation of the Group. To a large extent, the Group relies on such system to manage the processes such as the recording and execution of orders, pricing and monitoring inventory level and restocking. If the ERP information management system does not reach the expected results during operation or fails to meet the requirements arising from the continuous development of business, the business of the Group may be affected, which in turn may dampen our sales, increase our expenses and costs and lead to under-stock or over-stock and have an adverse effect on the Group's business and operation results.

RISKS ASSOCIATED WITH THE PRC

Changing economic, political and social conditions or government policies in the PRC

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy but may also have a negative effect on the Group's operations. For example, the Group's financial condition and operating results may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. There is no assurance that future changes in the PRC's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on the Group's current or future business, results of operations or financial condition.

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 deviation as disclosed in the section headed "Deviation" below, the Company has complied with the code provisions of the CG Code for the year ended 31 December 2011.

Set out below are the status and details of compliance by the Company of the CG Code in the year ended 31 December 2011.

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 2011.

Board of Directors

Board composition

During the year ended 31 December 2011 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. Ng Kin Wah	*(Executive Director)*
Mr. Zou Xiao Chun	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*
Mr. Ian Andrew Reynolds	*(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)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director) (appointed with effect from 10 March 2011)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (appointed with effect from 10 June 2011)*
Mr. Chen Xiao	*(Executive Director and Chairman) (resigned on 10 March 2011)*
Mr. Sun Yi Ding	*(Executive Director) (resigned on 10 March 2011)*
Mr. Wang Jun Zhou	*(Executive Director) (retired on 10 June 2011)*
Ms. Wei Qiu Li	*(Executive Director) (retired on 10 June 2011)*
Ms. Huang Yan Hong	*(Non-executive Director) (retired on 10 June 2011)*

The biographical details of the current Board members are set out on pages 41 to 50 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. 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. Mr. Ng Wai Hung, being an independent non-executive Director, is appointed with a specific term of 3 years from 10 June 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 2011, 9 Board meetings (including 4 regular Board meetings) were held. Details of the Directors' attendance records during the year are as follows:

Directors	Attendance
Mr. Zhang Da Zhong***	7/9 (4/4)*
Mr. Ng Kin Wah	9/9 (4/4)*
Mr. Zou Xiao Chun	9/9 (4/4)*
Mr. Zhu Jia	9/9 (4/4)*
Mr. Ian Andrew Reynolds	8/9 (4/4)*
Ms. Wang Li Hong	9/9 (4/4)*
Mr. Sze Tsai Ping, Michael	8/9 (3/4)*
Mr. Chan Yuk Sang	9/9 (4/4)*
Mr. Thomas Joseph Manning	8/9 (4/4)*
Mr. Lee Kong Wai, Conway***	7/9 (4/4)*
Mr. Ng Wai Hung *****	4/9 (2/4)*
Mr. Chen Xiao**	2/9 (0/4)*
Mr. Sun Yi Ding**	1/9 (0/4)*
Mr. Wang Jun Zhou****	5/9 (2/4)*
Ms. Wei Qiu Li****	3/9 (1/4)*
Ms. Huang Yan Hong****	5/9 (2/4)*

* *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 9 March 2011, Mr. Chen Xiao resigned as an executive Director and the Chairman, and Mr. Sun Yi Ding resigned as an executive Director, all with effect from 10 March 2011. Therefore, they did not attend any meeting of the Board subsequent to their respective resignations.*

*** *As disclosed in the announcement of the Company dated 9 March 2011, Mr. Zhang Da Zhong and Mr. Lee Kong Wai, Conway were appointed as a non-executive Director and an independent non-executive Director respectively with effect from 10 March 2011. They therefore did not attend any meeting of the Board prior to their respective appointments.*

**** *As disclosed in the announcement of the Company dated 10 June 2011, each of Mr. Wang Jun Zhou, Ms. Wei Qiu Li and Ms. Huang Yan Hong retired as Directors at the annual general meeting of the Company held on 10 June 2011. Therefore, they did not attend any meeting of the Board as Directors subsequent to their respective retirements.*

***** *Mr. Ng Wai Hung was appointed as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 10 June 2011 and therefore did not attend any meeting of the Board prior to his appointment.*

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.

Chairman and Chief Executive Officer

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. The Company was in compliance with code provision A.2.1 of the CG Code during the review period. Mr. Chen Xiao served as the chairman of the Company between 1 January and 9 March 2011 and Mr. Zhang Da Zhong served as the chairman of the Company between 10 March 2011 and 31 December 2011, each primarily responsible for providing leadership to the Board. During the year under review, Mr. Wang Jun Zhou was the president of the Company, undertaking the duties of the chief executive officer of the Company to oversee the business of the Group and executing decisions of the Board.

Deviation

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

During the year under review, the Board had the following committees:

1. Remuneration Committee;
2. Nomination Committee;
3. Independent Committee;
4. Executive Committee; and
5. Audit 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 2011, a majority of the members of the Remuneration Committee is independent non-executive Directors after 10 March 2011 when Mr. Lee Kong Wai, Conway, an independent non-executive Director, was appointed a member of the Remuneration Committee, and the Remuneration Committee comprised the following members:

Mr. Ng Wai Hung	*(Independent non-executive Director) (appointed a member and the chairman of the Remuneration Committee with effect from 29 August 2011)*
Mr. Chan Yuk Sang	*(Independent non-executive Director) (ceased to be the chairman of the Remuneration Committee with effect from 29 August 2011)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director) (appointed a member of the Remuneration Committee with effect from 10 March 2011)*
Mr. Zhu Jia	*(Non-executive Director)*
Mr. Wang Jun Zhou	*(retired as executive Director and member of the Remuneration Committee on 10 June 2011)*
Ms. Huang Yan Hong	*(retired as non-executive Director and member of the Remuneration Committee on 10 June 2011)*

The Remuneration Committee was primarily responsible for the following duties during the year under review:

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 ended 31 December 2011, the Remuneration Committee recommended the pay rise for the non-executive Directors and independent non-executive Directors, and reviewed the collective performance and individual performance as well as the performance-based bonus payment of the senior management of the Company for year 2011.

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

Committee members	Attendance
Mr. Ng Wai Hung*	0
Mr. Chan Yuk Sang	2
Mr. Sze Tsai Ping, Michael	2
Mr. Thomas Joseph Manning	2
Mr. Lee Kong Wai, Conway**	2
Mr. Zhu Jia	2
Mr. Wang Jun Zhou***	2
Ms. Huang Yan Hong***	2

* *Mr. Ng Wai Hung was appointed as a member and the chairman of the Remuneration Committee with effect from 29 August 2011 and therefore did not attend any meeting of the Remuneration Committee prior to his appointment.*

** *Mr. Lee Kong Wai, Conway was appointed as a member of the Remuneration Committee with effect from 10 March 2011 and therefore did not attend any meeting of the Remuneration Committee prior to his appointment.*

*** *Mr. Wang Jun Zhou and Ms. Huang Yan Hong retired as directors and members of the Remuneration Committee at the annual general meeting of the Company held on 10 June 2011 and therefore did not attend any meeting of the Remuneration Committee subsequent to their respective retirements.*

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 2011, a majority of the members of the Nomination Committee is independent non-executive Directors after 10 March 2011 when Mr. Lee Kong Wai, Conway, an independent non-executive Director, was appointed a member of the Nomination Committee, and the Nomination Committee comprised the following members:

Mr. Chan Yuk Sang	*(Independent non-executive Director) (appointed the chairman of the Nomination Committee with effect from 29 August 2011)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director) (appointed a member of the Nomination Committee with effect from 10 March 2011)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (appointed a member of the Nomination Committee with effect from 29 August 2011)*
Mr. Zou Xiao Chun	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wei Qiu Li	*(retired as executive Director and the chairman of the Nomination Committee on 10 June 2011)*

The Nomination Committee was primarily responsible for the following duties during the year under review:

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, considered and recommended appointment of Directors and Chairman of the Board, and reviewed the structure, size and composition of the Board.

During the year under review, 3 meetings of Nomination Committee were held. Attendance records of the members of the Nomination Committee of such meetings are as follows:

Committee members	Attendance
Mr. Chan Yuk Sang	3
Mr. Sze Tsai Ping, Michael	3
Mr. Thomas Joseph Manning	2
Mr. Lee Kong Wai, Conway*	2
Mr. Ng Wai Hung*	0
Mr. Zou Xiao Chun	3
Mr. Zhu Jia	3
Ms. Wei Qiu Li**	1

* *Mr. Lee Kong Wai, Conway and Mr. Ng Wai Hung were appointed as members of the Nomination Committee with effect from 10 March 2011 and 29 August 2011 respectively, and therefore did not attend any meeting of the Nomination Committee prior to their respective appointments.*

** *Ms. Wei Qiu Li retired as a director and member of the Nomination Committee at the annual general meeting of the Company held on 10 June 2011 and therefore did not attend any meeting of the Nomination Committee subsequent to her retirement.*

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 Committee

The Independent Committee was established by the Board on 21 August 2009. During the year ended 31 December 2011, the Independent Committee comprised the following members:

Mr. Zhang Da Zhong	*(Non-executive Director) (appointed a member of the Independent Committee with effect from 10 March 2011) (appointed the chairman of the Independent Committee with effect from 29 August 2011)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wang Li Hong	*(Non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director) (ceased to be the chairman of the Independent Committee with effect from 29 August 2011)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director) (appointed a member of the Independent Committee with effect from 10 March 2011)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (appointed a member of the Independent Committee with effect from 29 August 2011)*

The Independent Committee was primarily responsible for the following duties during the year under review:

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, considered and approved new continuing connected transactions and new connected transactions of the Group.

During the year under review, 3 meetings of Independent Committee were held. Attendance records of the members of the Independent Committee of such meetings are as follows:

Committee members	Attendance
Mr. Zhang Da Zhong*	1
Mr. Zhu Jia	3
Ms. Wang Li Hong	3
Mr. Thomas Joseph Manning	2
Mr. Sze Tsai Ping, Michael	3
Mr. Chan Yuk Sang	3
Mr. Lee Kong Wai, Conway*	1
Mr. Ng Wai Hung**	1

* *Mr. Zhang Da Zhong and Mr. Lee Kong Wai, Conway were appointed as members of the Independent Committee with effect from 10 March 2011 and therefore did not attend any meeting of the Independent Committee prior to their respective appointments.*

** *Mr. Ng Wai Hung was appointed as a member of the Independent Committee with effect from 29 August 2011 and therefore did not attend any meeting of the Independent Committee prior to his appointment.*

Executive Committee

The Executive Committee was established by the Board on 29 July 2009 and dissolved on 10 June 2011 with the retirement of two more executive Directors, leaving only two executive Directors in the Board, which could no longer constitute the Executive Committee. All members of the Executive Committee shall be executive Directors and the Executive Committee shall consist of not less than three members. Between 1 January 2011 and the date of dissolution, the Executive Committee comprised the following members:

Mr. Zou Xiao Chun *(Executive Director)*
Mr. Chen Xiao *(Executive Director and the chairman of the Executive Committee) (resigned on 10 March 2011)*
Mr. Wang Jun Zhou *(Executive Director) (retired on 10 June 2011)*
Ms. Wei Qiu Li *(Executive Director) (retired on 10 June 2011)*

The Executive Committee was primarily responsible for the following duties during the year under review:

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.

Between 1 January 2011 and the date of the dissolution, the Executive Committee was inactive and did not hold any meeting.

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 2011, the Audit Committee comprised the following members:

Mr. Lee Kong Wai, Conway	*(Independent non-executive Director) (appointed a member of the Audit Committee with effect from 10 March 2011) (appointed the chairman of the Audit Committee with effect from 29 August 2011)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director) (ceased to be the chairman of the Audit Committee with effect from 29 August 2011)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (appointed a member of the Audit Committee with effect from 29 August 2011)*

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 during the year under review:

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 2011, 4 Audit Committee meetings were held for, amongst other matters, considering the annual results of the Group for the financial year ended 31 December 2010, the quarterly results of the Group for the three months ended 31 March 2011, the interim results of the Group for the six months ended 30 June 2011 and the quarterly results of the Group for the nine months ended 30 September 2011, 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 2011 are as follows:

Committee members	Attendance
Mr. Lee Kong Wai, Conway*	4
Mr. Sze Tsai Ping, Michael	3
Mr. Chan Yuk Sang	4
Mr. Thomas Joseph Manning	4
Mr. Ng Wai Hung**	1

* *Mr. Lee Kong Wai, Conway was appointed as a member of the Audit Committee with effect from 10 March 2011 and therefore did not attend any meeting of the Audit Committee prior to his appointment.*

** *Mr. Ng Wai Hung was appointed as a member of the Audit Committee with effect from 29 August 2011 and therefore did not attend any meeting of the Audit Committee prior to his appointment.*

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2011 is RMB8,400,000 (2010: RMB7,900,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2011 is RMB1,680,000 (2010: RMB3,100,000). 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 AGM held in 2012. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the AGM held in 2012.

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 had reviewed the effectiveness of the Group's internal control systems for the year 2011 and is satisfied that, based on information furnished to it and on its own observations, the present internal control systems of the Group are satisfactory. In particular, in 2011, the Group had implemented a new, upgraded enterprise resources planning system (i.e. the ERP system) by phases, which helped enhance the inventory control system, operational control system and the financial reporting system of the Group.

Company Secretary

During the year under review, the Company Secretary was Mr. Szeto King Pui, Albert who was not an employee of the Company and was a partner of an external law firm. The primary corporate contact person at the Company for the Company Secretary is Ms. Lee Wing Yin Grace, the General Counsel of the Company.

Communication with Shareholders

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' Rights

Right to convene a special general meeting

Pursuant to section 74 of the Bermuda Companies Act 1981 which the Company is subject to, shareholder(s) of the Company holding not less than 10% of the paid up capital of the Company carrying voting right at the general meetings of the Company, are entitled to make a requisition to the Board to convene a special general meeting of the Company ("SGM"), and the Board shall forthwith proceed to convene an SGM upon such requisition.

The SGM requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists.

If the Board does not within twenty one days from the date of the deposit of the requisition proceed duly to convene an SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of such requisitionists, may themselves convene an SGM, but any SGM so convened shall not be held after the expiration of three months from the date of the deposit of such requisition.

The SGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which the SGMs are to be convened by the Board. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to convene an SGM shall be repaid to the requisitionists by the Company.

Right to propose resolutions at general meetings

Pursuant to sections 79 and 80 of the Bermuda Companies Act 1981 which the Company is subject to, shareholder(s) holding not less than 5% of the total voting rights of the Company or not less than 100 shareholders, are entitled to make a requisition to the Company to give shareholders notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting of the Company, provided that:

(1) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company, not less than six weeks before the next annual general meeting; and

(2) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

Right to nominate directors for election at general meetings

Pursuant to Bye-law 103 of the Company's Bye-laws, whenever the appointment/election of director(s) is considered at a general meeting by any of the above requisitions or otherwise, if a shareholder who is qualified to attend and vote at the general meeting convened to deal with appointment/election of director(s) wishes to propose a person who is not a retiring director at such general meeting for appointment or election as a director, such shareholder shall deposit or lodge a written notice of the intention to propose a person for election or appointment as a director, together with the written notice by the person nominated of his willingness to be elected or appointed as a director, at the head office or registered office of the Company at least seven days prior to the date of such general meeting, provided that such written notices shall not be lodged earlier than the day after the dispatch of the notice of the general meeting appointed for such election.

Disclaimers

Contents of this section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only, do not represent and should not be regarded as legal or other professional advice to the shareholders from the Company. Shareholders should seek their independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims all liabilities and losses incurred by its shareholders in reliance on any contents of this section headed "Shareholders' Rights".

Procedures for putting enquiries to the Board

Shareholders may put enquiries to the Board in writing by addressing the same to the Board by post or delivery to Unit 6101, 61st Floor, The Center, 99 Queen's Road Central, Hong Kong or email to info@gome.com.hk.

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:

	BEIJING	HONG KONG
Telephone number:	+86 10 5928 8815	+852 2122 9133
By post:	18/F, Block B, Eagle Plaza	Unit 6101, 61st Floor
	No. 26 Xiaoyun Road	The Center
	Chao Yang District	99 Queen's Road Central
	Beijing, China	Hong Kong, China
Attention:	Investor Relations Department	Corporate Finance & Development Department
By email:	ir@gome.com.cn	info@gome.com.hk

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安 永

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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 83 to 191, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

Independent Auditors' Report (Continued)

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 2011, 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
27 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**59,820,789**	50,910,145
Cost of sales		**(52,264,259)**	(44,991,355)
Gross profit		**7,556,530**	5,918,790
Other income and gain	5	**3,302,082**	3,441,628
Selling and distribution costs		**(6,903,543)**	(5,114,303)
Administrative expenses		**(1,218,501)**	(1,165,138)
Other expenses		**(413,238)**	(375,323)
Profit from operating activities		**2,323,330**	2,705,654
Finance costs	7	**(241,772)**	(441,818)
Finance income	7	**400,291**	339,036
Loss on the derivative component of convertible bonds	*29(i)*	**(7,349)**	(93,340)
PROFIT BEFORE TAX	6	**2,474,500**	2,509,532
Income tax expense	10	**(673,154)**	(547,878)
PROFIT FOR THE YEAR		**1,801,346**	1,961,654
Attributable to:			
Owners of the parent company	*33b(i)*	**1,839,867**	1,961,654
Non-controlling interests		**(38,521)**	–
		1,801,346	1,961,654
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	11		
– Basic		**RMB10.9 fen**	RMB12.7 fen
– Diluted		**RMB10.9 fen**	RMB12.0 fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR		**1,801,346**	1,961,654
OTHER COMPREHENSIVE INCOME/(LOSS)			
Changes in fair value of other investments	*16*	**18,090**	(25,650)
Gains on property revaluation	*12*	**741**	25,204
Income tax effect		**(185)**	(6,301)
		556	18,903
Exchange differences on translation of foreign operations		**(15,916)**	(15,162)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**2,730**	(21,909)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,804,076**	1,939,745
Attributable to:			
Owners of the parent company		**1,842,597**	1,939,745
Non-controlling interests		**(38,521)**	–
		1,804,076	1,939,745

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property and equipment	*12*	**3,874,370**	3,556,163
Investment properties	*13*	**915,226**	830,611
Goodwill	*14*	**4,030,771**	4,014,981
Other intangible assets	*15*	**108,660**	116,157
Other investments	*16*	**145,800**	127,710
Lease prepayments	*17*	**403,171**	387,784
Deferred tax assets	*18*	**66,663**	39,513
Designated loans	*19*	**3,600,000**	3,648,000
Total non-current assets		**13,144,661**	12,720,919
CURRENT ASSETS			
Inventories	*21*	**9,625,044**	8,084,971
Trade and bills receivables	*22*	**199,598**	206,102
Prepayments, deposits and other receivables	*23*	**3,728,279**	2,446,051
Due from related parties	*24*	**169,390**	251,290
Derivative component of convertible bonds	*29*	**–**	7,349
Pledged deposits	*25*	**4,388,998**	6,268,130
Cash and cash equivalents	*25*	**5,971,498**	6,232,450
Total current assets		**24,082,807**	23,496,343

Consolidated Statement of Financial Position (Continued)

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CURRENT LIABILITIES			
Interest-bearing bank loans	*26*	**–**	100,000
Trade and bills payables	*27*	**17,140,383**	16,899,683
Customers' deposits, other payables and accruals	*28*	**1,523,315**	1,819,999
Due to related parties	*24*	**–**	97,826
Convertible bonds	*29*	**2,111,610**	129,976
Tax payable		**440,905**	509,374
Total current liabilities		**21,216,213**	19,556,858
NET CURRENT ASSETS		**2,866,594**	3,939,485
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,011,255**	16,660,404
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*18*	**92,961**	111,148
Convertible bonds	*29*	**–**	1,814,069
Total non-current liabilities		**92,961**	1,925,217
Net assets		**15,918,294**	14,735,187
EQUITY			
Equity attributable to owners of the parent company			
Issued capital	*30*	**421,521**	417,666
Reserves	*33(a)*	**15,527,242**	13,735,246
Proposed final dividend	*34*	**–**	582,275
		15,948,763	14,735,187
Non-controlling interests		**(30,469)**	–
Total equity		**15,918,294**	14,735,187

Zhang Da Zhong
Director

Ng Kin Wah
Director

	Notes	Issued capital RMB'000 Note 30	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 revaluation 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
		Attributable to owners of the parent company													
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	*29(i)*	-	-	-	(683,330)	-	-	-	-	-	-	-	(683,330)	-	(683,330)
Conversion of the 2016 Convertible Bonds	*29(iii)*	35,178	1,678,681	-	(137,411)	-	-	-	-	-	-	-	1,576,448	-	1,576,448
Exercise of share options	*31*	80	8,179	-	-	(2,192)	-	-	-	-	-	-	6,067	-	6,067
Equity-settled share option arrangements	*31*	-	-	-	-	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

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2011

	Notes	Issued capital RMB'000 Note 30	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 revaluation 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
		Attributable to owners of the parent company													
At 1 January 2011		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
Profit for the year		-	-	-	-	-	-	-	-	-	1,839,867	-	1,839,867	(38,521)	1,801,346
Other comprehensive income for the year:															
Changes in fair value of other investments	16	-	-	-	-	-	-	18,090	-	-	-	-	18,090	-	18,090
Gains on property revaluation, net of tax		-	-	-	-	-	556	-	-	-	-	-	556	-	556
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(15,916)	-	-	(15,916)	-	(15,916)
Total comprehensive income for the year		-	-	-	-	-	556	18,090	-	(15,916)	1,839,867	-	1,842,597	(38,521)	1,804,076
Acquisition of subsidiaries	32	-	-	-	-	-	-	-	-	-	-	-	-	8,052	8,052
Exercise of warrants	30(ii)	2,300	162,125	-	-	-	-	-	-	-	-	-	164,425	-	164,425
Repurchase of shares	30(iii)	(179)	(14,395)	-	-	-	-	-	-	-	-	-	(14,574)	-	(14,574)
Exercise of share options	31	1,734	181,383	-	-	(51,302)	-	-	-	-	-	-	131,815	-	131,815
Equity-settled share option arrangements	31	-	-	-	-	54,071	-	-	-	-	-	-	54,071	-	54,071
Transfer to statutory reserves		-	-	-	-	-	-	-	205,037	-	(205,037)	-	-	-	-
Dividends paid	34	-	-	-	-	-	-	-	-	-	(382,483)	(582,275)	(964,758)	-	(964,758)
Wind-up of a subsidiary		-	-	-	-	-	-	-	(538)	-	538	-	-	-	-
At 31 December 2011		421,521	9,457,964*	657*	(657,232)*	164,913*	117,468*	51,840*	1,341,871*	(234,092)*	5,283,853*	-	15,948,763	(30,469)	15,918,294

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 RMB15,527,242,000 (2010: RMB13,735,246,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,474,500**	2,509,532
Adjustments for:			
Finance income	*7*	**(400,291)**	(339,036)
Finance costs	*7*	**241,772**	441,818
Loss on the derivative component of convertible bonds	*6*	**7,349**	93,340
Gain on redemption of the Old 2014 Convertible Bonds	*5*	**–**	(202,578)
Fair value loss on transfer of owner-occupied properties to investment properties	*6*	**9,756**	–
Fair value (gain)/loss on investment properties	*6*	**(25,650)**	8,488
Fair value loss on Hong Kong listed investments	*6*	**–**	29
Loss on disposal of items of property and equipment	*6*	**498**	16,287
Depreciation	*6*	**397,217**	332,543
Amortisation of intangible assets	*6*	**9,222**	9,042
Equity-settled share option expense	*31*	**54,071**	93,803
		2,768,444	2,963,268
Increase in lease prepayments		**(15,387)**	(55,377)
Increase in inventories		**(1,522,736)**	(1,552,518)
Decrease/(increase) in trade and bills receivables		**6,504**	(151,903)
Increase in prepayments, deposits and other receivables		**(1,280,142)**	(736,966)
Decrease/(increase) in amounts due from related parties		**78,900**	(94,144)
Decrease in pledged deposits		**1,879,132**	2,528,214
Increase in trade and bills payables		**227,200**	1,084,422
(Decrease)/increase in amounts due to related parties		**(97,826)**	97,826
Decrease in customers' deposits, other payables and accruals		**(315,691)**	(9,515)
Cash generated from operations		**1,728,398**	4,073,307
Interest received		**406,776**	352,953
Dividends paid		**(964,758)**	–
PRC income tax paid		**(787,145)**	(553,081)
Net cash flows from operating activities		**383,271**	3,873,179

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2011

	Notes	**2011** **RMB'000**	2010 RMB'000
Net cash flows from operating activities		**383,271**	3,873,179
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(861,450)**	(507,287)
Proceeds from disposal of items of property and equipment		**83,422**	746
Acquisition of subsidiaries	*32*	**41,835**	–
Increase in a designated loan		**–**	(48,000)
Proceeds from disposal of Hong Kong listed investments		**–**	1,606
Net cash flows used in investing activities		**(736,193)**	(552,935)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	*30(iii)*	**(14,574)**	–
Redemption of the Old 2014 Convertible Bonds	*29(i)*	**–**	(2,685,508)
Exercise of share options	*31*	**131,815**	6,067
Exercise of warrants	*30(ii)*	**164,425**	–
New bank loans		**–**	100,000
Repayment of bank loans		**(100,000)**	(350,000)
Interest paid	*7, 29*	**(74,207)**	(172,524)
Net cash flows from/(used in) financing activities		**107,459**	(3,101,965)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(245,463)**	218,279
Cash and cash equivalents at beginning of year		**6,232,450**	6,029,059
Effect of foreign exchange rate changes, net		**(15,489)**	(14,888)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,971,498**	6,232,450
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*25*	**5,314,828**	5,716,500
Non-pledged time deposits with original maturity of less than three months when acquired	*25*	**656,670**	515,950
		5,971,498	6,232,450

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*20*	**10,505,855**	10,142,955
Total non-current assets		**10,505,855**	10,142,955
CURRENT ASSETS			
Prepayments, deposits and other receivables	*23*	**3,274**	5,080
Derivative component of convertible bonds	*29*	**-**	7,349
Cash and cash equivalents	*25*	**776,635**	1,553,331
Total current assets		**779,909**	1,565,760
CURRENT LIABILITIES			
Other payables and accruals		**2,554**	3,078
Convertible bonds	*29*	**2,111,610**	129,976
Total current liabilities		**2,114,164**	133,054
NET CURRENT (LIABILITIES)/ASSETS		**(1,334,255)**	1,432,706
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,171,600**	11,575,661
NON-CURRENT LIABILITIES			
Convertible bonds	*29*	**–**	1,814,069
Total non-current liabilities		**–**	1,814,069
Net assets		**9,171,600**	9,761,592
EQUITY			
Issued capital	*30*	**421,521**	417,666
Reserves	*33(b)*	**8,750,079**	8,761,651
Proposed final dividend	*34*	**–**	582,275
Total equity		**9,171,600**	9,761,592

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 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

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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.

Total comprehensive income within a subsidiary is 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.

2.2 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 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC 14 Amendment	Amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

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

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 36 to the consolidated financial statements.

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

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

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

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- IAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

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 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *Government Loans*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
IAS 32 Amendments	Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*[5]
IAS 19 (2011)	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statements*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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

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

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities.* IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

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

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt IAS 12 Amendments from 1 January 2012.

IAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 (2011) from 1 January 2013.

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 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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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 identifiable net 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. The Group performs its annual impairment test of goodwill as at 31 December. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent company of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(iii) the entity is controlled or jointly controlled by a person identified in (a); and

(iv) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property and equipment and depreciation

Property 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 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 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 and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life 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

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment and depreciation *(continued)*

An item of property 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 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 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. Any resulting decrease in the carrying amount of the property is recognised in the income statement. Any resulting increase in the carrying amount is recognised in the income statement to the extent that the increase reverses a previous impairment loss for that property. The amount recognised in the income statement does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised. Any remaining part of the increase is recognised in other comprehensive income and increases the asset revaluation reserve. On subsequent disposal of the investment property, the revaluation surplus included in the asset revaluation reserve is transferred to retained earnings.

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 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

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, in rare circumstances, 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. 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. The evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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 expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt 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 revaluation 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, when the cumulative gain or loss is reclassified from the other investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*
For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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.

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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.

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 or has been transferred to the Group.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

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

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

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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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:

- when 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, when 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.

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

- when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 and purchasing service fee income, management fee income for air-conditioner installation and other service fee income are 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; and

- 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 31 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 is 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.

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.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF 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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purpose of the consolidated 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.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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

Judgements *(continued)*

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 described below.

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 2011 was RMB4,030,771,000 (2010: 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 2011 was RMB915,226,000 (2010: RMB830,611,000). Further details are given in note 13 to the financial statements.

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

Estimation uncertainty *(continued)*

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 2011 was RMB41,707,000 (2010: RMB13,965,000).

The unrecognised tax losses at 31 December 2011 amounted to RMB1,898,900,000 (2010: RMB1,297,300,000). Further details are given in note 18 to the financial statements.

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 2011, the carrying amount of available-for-sale assets was RMB145,800,000 (2010: RMB127,710,000). Further details are given in note 16 to the financial statements.

Assessment of useful lives of property and equipment

The Group has estimated the useful lives of the property and equipment of 4 to 40 years. Depreciation of items of property and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property and equipment as at 31 December 2011 was RMB3,874,370,000 (2010: RMB3,556,163,000). Further details are given in note 12 to the financial statements.

4. OPERATING 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, unallocated income, finance costs, the fair value loss on the derivative component of convertible bonds, gain on redemption of the Old 2014 Convertible Bonds and corporate and other unallocated expenses are excluded from such measurement.

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets exclude deferred tax assets, pledged deposits, other investments, the derivative component of convertible bonds and cash and cash equivalents as these assets are managed on a group basis.

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

	2011	2010
	RMB'000	RMB'000
Segment revenue		
Sales to external customers	**59,820,789**	50,910,145
Segment results	**2,629,103**	2,862,919
Reconciliation:		
Bank interest income	**223,593**	164,076
Unallocated income	**4,872**	15,466
Loss on the derivative component of convertible bonds	**(7,349)**	(93,340)
Gain on redemption of the Old 2014 Convertible Bonds	**–**	202,578
Finance costs	**(241,772)**	(441,818)
Corporate and other unallocated expenses	**(133,947)**	(200,349)
Profit before tax	**2,474,500**	2,509,532
Segment assets	**26,654,509**	23,542,110
Reconciliation:		
Corporate and other unallocated assets	**10,572,959**	12,675,152
Total assets	**37,227,468**	36,217,262
Segment liabilities	**18,663,698**	18,817,508
Reconciliation:		
Corporate and other unallocated liabilities	**2,645,476**	2,664,567
Total liabilities	**21,309,174**	21,482,075
Other segment information		
Depreciation and amortisation	**406,439**	341,585
Capital expenditure*	**869,476**	507,287

* Capital expenditure consists of additions to property and equipment and intangible assets including those arising from the acquisition of subsidiaries (note 32).

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2011	2010
	RMB'000	RMB'000
Mainland China	**59,820,789**	50,910,145

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

(b) Non-current assets

	2011	2010
	RMB'000	RMB'000
Mainland China	**9,317,070**	8,896,662
Hong Kong	**15,128**	9,034
	9,332,198	8,905,696

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 GAIN

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 gain is as follows:

	Notes	**2011** **RMB'000**	2010 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**59,820,789**	50,910,145
Other income			
Income from suppliers		**2,079,355**	2,166,652
Management and purchasing service fees:			
– from the Non-listed GOME Group	*(i)*	**250,000**	250,000
– from Dazhong Appliances	*(ii)*	**104,547**	101,577
Management fees for air-conditioner installation		**134,488**	137,676
Gross rental income		**228,635**	189,438
Government grants	*(iii)*	**166,027**	139,605
Other service fee income		**63,270**	106,221
Compensation income		**13,764**	26,193
Other income from telecommunication service providers		**117,136**	58,671
Others		**119,210**	63,017
		3,276,432	3,239,050
Gain			
Fair value gain on investment properties		**25,650**	–
Gain on redemption of the Old 2014 Convertible Bonds	*29(i)*	**–**	202,578
		25,650	202,578
		3,302,082	3,441,628

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	2011 RMB'000	2010 RMB'000
Cost of inventories sold		**52,264,259**	44,991,355
Depreciation	*12*	**397,217**	332,543
Amortisation of intangible assets	*15, (i)*	**9,222**	9,042
Loss on disposal of items of property and equipment		**498**	16,287
Minimum lease payments under operating leases in respect of land and buildings		**2,730,814**	2,242,618
Gross rental income	*5*	**(228,635)**	(189,438)
Fair value loss on transfer of owner-occupied properties to investment properties	*12*	**9,756**	–
Fair value (gain)/loss on investment properties	*13*	**(25,650)**	8,488
Management and purchasing service fees from Dazhong Appliances	*5*	**(104,547)**	(101,577)
Interest income from Beijing Zhansheng	*7*	**(176,698)**	(174,960)
Loss on the derivative component of convertible bonds	*29(i)*	**7,349**	93,340
Gain on redemption of the Old 2014 Convertible Bonds	*29(i)*	**–**	(202,578)
Fair value loss on Hong Kong listed investments		**–**	29
Foreign exchange differences, net		**31,295**	35,086
Auditors' remuneration			
– audit services		**8,400**	7,900
– non-audit services		**1,680**	3,100
Staff costs excluding directors' remuneration *(note 8)*			
Wages, salaries and bonuses		**1,858,004**	1,387,039
Pension scheme contributions*		**385,947**	256,043
Social welfare and other costs		**16,337**	17,507
Equity-settled share option expense		**54,140**	67,368
		2,314,428	1,727,957

Note:

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

* At 31 December 2011, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2010: Nil).

7. FINANCE (COSTS)/INCOME

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

	Notes	**2011** **RMB'000**	2010 RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		**(3,491)**	(11,266)
Interest expenses on convertible bonds	*29*	**(238,281)**	(430,552)
		(241,772)	(441,818)
Finance income:			
Bank interest income		**223,593**	164,076
Other interest income	*(i)*	**176,698**	174,960
		400,291	339,036

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan (note 19) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest ranging from 4.86% to 5.90% (2010: 4.86%) 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:

	2011 **RMB'000**	2010 RMB'000
Fees	**2,823**	1,068
Other emoluments:		
Salaries, allowances, bonuses and other expense	**28,679**	14,985
Equity-settled share option expense	**(69)**	26,435
Pension scheme contributions	**87**	110
	28,697	41,530

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

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 31 to the financial statements. The fair value of such options which has been recognised in the consolidated 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	2011 RMB'000	2010 RMB'000
Mr. Chan Yuk Sang		**387**	261
Mr. Sze Tsai Ping, Michael		**387**	261
Mr. Thomas Joseph Manning		**387**	261
Mr. Lee Kong Wai	*(ii)*	**277**	–
Mr. Ng Wai Hung	*(iii)*	**277**	–
		1,715	783

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2010: Nil).

(ii) Mr. Lee Kong Wai was appointed as independent non-executive director with effect from 10 March 2011.

(iii) Mr. Ng Wai Hung was appointed as independent non-executive director with effect from 10 June 2011.

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

(b) Executive directors and non-executive directors

2011	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. Ng Kin Wah		–	1,199	2,590	10	3,799
Mr. Wang Jun Zhou	*(i)*	–	3,051	4,537	15	7,603
Ms. Wei Qiu Li	*(i)*	–	2,552	4,101	15	6,668
Mr. Zou Xiao Chun		–	1,142	–	23	1,165
Mr. Sun Yi Ding	*(ii)*	–	7,110	(4,196)	15	2,929
Mr. Chen Xiao	*(ii)*	–	13,625	(7,101)	9	6,533
		–	28,679	(69)	87	28,697
Non-executive directors:						
Mr. Zhu Jia		277	–	–	–	277
Ms. Wang Li Hong		277	–	–	–	277
Mr. Ian Andrew Reynolds		277	–	–	–	277
Mr. Zhang Da Zhong	*(iii)*	277	–	–	–	277
Ms. Huang Yan Hong	*(iv)*	–	–	–	–	–
		1,108	28,679	(69)	87	29,805

Notes:

(i) Mr. Wang Jun Zhou and Ms. Wei Qiu Li retired as directors on 10 June 2011 and remained as management of the Group.

(ii) Mr. Chen Xiao and Mr. Sun Yi Ding resigned as directors on 10 March 2011 and certain options granted to them in 2009 were not yet vested on 10 March 2011. Thus, the cumulative expense recognised in the consolidated income statement in respect of these options was reversed in 2011 because of the forfeiture of these options. The Company paid Mr. Chen Xiao and Mr. Sun Yi Ding RMB10,000,000 and RMB5,000,000 after individual income tax, in consideration for the written undertakings as to non-competition, confidentiality and others given by these two persons in favour of the Group upon their resignation as a director and a senior management of the Company, respectively.

(iii) Mr. Zhang Da Zhong was appointed as a non-executive director and chairman with effect from 10 March 2011.

(iv) Ms. Huang Yan Hong was appointed as non-executive director with effect from 17 December 2010 and retired as non-executive director on 10 June 2011.

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

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

2010	Note	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		–	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		–	2,438	4,140	24	6,602
Mr. Zou Xiao Chun	*(i)*	–	–	–	–	–
		–	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		–	–	–	–	–
		285	14,985	26,435	110	41,815

Note:

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: 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 three (2010: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2010: one) non-director, highest paid individuals for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances, bonuses and other expense	**4,646**	2,033
Pension scheme contributions	**52**	29
Equity-settled share option expense	**7,000**	5,122
	11,698	7,184

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

	Number of individuals 2011	2010
HK$6,000,001 to HK$6,500,000 (equivalent to RMB4,967,401 to RMB5,381,350)	**1**	–
HK$7,500,001 to HK$8,000,000 (equivalent to RMB6,209,250 to RMB6,623,200)	**1**	–
HK$8,000,001 to HK$8,500,000 (equivalent to RMB6,966,401 to RMB7,401,800)	**–**	1
	2	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 2011 and 2010.

All the Hong Kong subsidiaries of the Group are required to participate in the MPF scheme under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group is required to make contributions for those employees who are registered as permanent residents in Hong Kong and are within the scope of the relevant Hong Kong regulations at lesser of 1,000 Hong Kong dollars and 5% of the employees' salaries for the years ended 31 December 2011 and 2010.

The Group's contributions to pension schemes for the year ended 31 December 2011 amounted to approximately RMB386,034,000 (2010: RMB256,153,000).

10. INCOME TAX EXPENSE

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

	2011	2010
	RMB'000	RMB'000
Current income tax – PRC	**718,676**	555,210
Deferred income tax *(note 18)*	**(45,522)**	(7,332)
Total tax charge for the year	**673,154**	547,878

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.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2010: 25%) on their respective taxable income. During the year, 36 entities (2010: 31 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.

10. INCOME TAX EXPENSE *(continued)*

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 2011 and 2010, as the Group had no assessable profits arising in Hong Kong for the respective years.

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:

			2011		
	Hong Kong		**PRC**		**Total**
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**
Profit/(loss) before tax	**(363,389)**		**2,837,889**		**2,474,500**
Income tax at the statutory tax rate	**(59,959)**	**16.5**	**709,472**	**25.0**	**649,513**
Tax effect of preferential tax rates	**–**		**(182,583)**		**(182,583)**
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**–**		**14,640**		**14,640**
Income not subject to tax	**(2,823)**		**(20,050)**		**(22,873)**
Expense not deductible for tax	**53,011**		**19,335**		**72,346**
Tax losses utilised from previous years	**–**		**(43,870)**		**(43,870)**
Tax losses not recognised	**9,771**		**176,210**		**185,981**
Tax charge at the Group's effective rate	**–**		**673,154**		**673,154**

			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

10. INCOME TAX EXPENSE *(continued)*

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 2011, 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 (2010: 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 COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares of 16,843,258,000 (2010: 15,502,678,000) in issue during the year.

The calculation of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent company, adjusted to reflect the interest on the convertible bonds, fair value loss on the derivative component of the convertible bonds and gain on redemption of the convertible bonds. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the weighted average 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 dilutive potential ordinary shares into ordinary shares.

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

	2011 **RMB'000**	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent company used in the basic earnings per share calculation	**1,839,867**	1,961,654
Interest on the Old 2014 Convertible Bonds	–	53,686
Fair value loss on the derivative component of the Old 2014 Convertible Bonds	–	93,340
Gain on redemption of the Old 2014 Convertible Bonds	–	(202,578)
Profit attributable to ordinary equity holders of the parent company as adjusted for the effect of convertible bonds	**1,839,867**	1,906,102

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

	Note	Number of shares 2011 '000	2010 '000
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation		**16,843,258**	15,502,678
Effect of dilution – weighted average number of ordinary shares:			
Warrants		**2,527**	34,626
Share options		**67,409**	51,125
Convertible bonds	*(i)*	**–**	260,715
		16,913,194	15,849,144

Note:

(i) 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 the diluted earnings per share. Only the effect of the Old 2014 Convertible Bonds was included in the calculation of the diluted earnings per share for the year ended 31 December 2010. The Old 2014 Convertible Bonds that were redeemed during the year ended 31 December 2010 were included in the calculation of the diluted earnings per share only for the portion of the period during which they were outstanding.

The Old 2014 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 2011 and were therefore not included in the calculation of diluted earnings per share.

12. PROPERTY 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 2011						
At 31 December 2010 and 1 January 2011:						
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
At 1 January 2011, net of accumulated depreciation and impairment	2,746,502	388,069	327,760	35,351	58,481	3,556,163
Additions	53,529	362,555	302,640	5,307	142,103	866,134
Acquisition of subsidiaries *(note 32)*	–	–	1,617	–	–	1,617
Disposals	(10,205)	(3,264)	(69,273)	(963)	(215)	(83,920)
Depreciation provided during the year	(82,983)	(170,857)	(131,100)	(12,277)	–	(397,217)
Transfers from construction in progress	–	–	198,625	–	(198,625)	–
Surplus on revaluation of properties transferred to investment properties	741	–	–	–	–	741
Deficit on revaluation of properties transferred to investment properties	(9,756)	–	–	–	–	(9,756)
Transfers to investment properties *(note 13)*	(88,193)	–	–	–	–	(88,193)
Transfers from investment properties *(note 13)*	28,885	–	–	–	–	28,885
Exchange realignment	(30)	(12)	(19)	(23)	–	(84)
At 31 December 2011, net of accumulated depreciation and impairment	2,638,490	576,491	630,250	27,395	1,744	3,874,370
At 31 December 2011:						
Cost	3,043,190	1,362,206	985,796	81,416	1,744	5,474,352
Accumulated depreciation and impairment	(404,700)	(785,715)	(355,546)	(54,021)	–	(1,599,982)
Net carrying amount	2,638,490	576,491	630,250	27,395	1,744	3,874,370

12. PROPERTY 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 2010						
At 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 AND EQUIPMENT *(continued)*

Certain of the buildings of the Group in the PRC were pledged as security for bank loans (note 26) and bills payable (note 27) of the Group as at 31 December 2011. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2011 amounted to RMB1,467,444,000 (31 December 2010: RMB1,589,660,000).

13. INVESTMENT PROPERTIES

Group

	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**830,611**	820,671
Transfer from owner-occupied properties *(note 12)*	**88,193**	61,144
Transfer to owner-occupied properties *(note 12)*	**(28,885)**	(42,480)
Net gain/(loss) from a fair value adjustment	**25,650**	(8,488)
Exchange realignment	**(343)**	(236)
Carrying amount at 31 December	**915,226**	830,611

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 Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle") and B.I. Appraisals Limited, independent firms of professionally qualified valuers, on the income capitalisation approach and direct comparison approach, as at 31 December 2011. 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.

As at 31 December 2011, investment properties of approximately RMB13,701,000 (31 December 2010: RMB7,234,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB901,525,000 (31 December 2010: RMB823,377,000) 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 26) and bills payable (note 27) of the Group as at 31 December 2011. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2011 amounted to RMB773,702,000 (31 December 2010: RMB751,150,000).

14. GOODWILL

Group

	2011 RMB'000	2010 RMB'000
At 1 January:		
Cost	**4,024,981**	4,024,981
Accumulated impairment	**(10,000)**	(10,000)
Net carrying amount	**4,014,981**	4,014,981
Cost at 1 January, net of accumulated impairment	**4,014,981**	4,014,981
Acquisition of subsidiaries *(note 32)*	**15,790**	–
At 31 December	**4,030,771**	4,014,981
At 31 December:		
Cost	**4,040,771**	4,024,981
Accumulated impairment	**(10,000)**	(10,000)
Net carrying amount	**4,030,771**	4,014,981

14. GOODWILL *(continued)*

Impairment testing of goodwill

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

	2011	2010
	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
Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") *(note 32)*	**15,790**	–
	4,040,771	4,024,981
Impairment	**(10,000)**	(10,000)
	4,030,771	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 rates applied to the cash flow projections range from 11.98% to 13.54% (2010: 12.24%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2010: 3%). The directors of the Company believe that this growth rate is 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 2011	
At 31 December 2010 and 1 January 2011:	
Cost	154,915
Accumulated amortisation	(38,758)
Net carrying amount	116,157
Cost at 1 January 2011, net of accumulated amortisation	116,157
Acquisition of subsidiaries *(note 32)*	1,725
Amortisation provided during the year	(9,222)
At 31 December 2011	108,660
At 31 December 2011:	
Cost	156,640
Accumulated amortisation	(47,980)
Net carrying amount	108,660
31 December 2010	
At 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 and at 1 January 2011:	
Cost	154,915
Accumulated amortisation	(38,758)
Net carrying amount	116,157

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.

The addition during the year ended 31 December 2011 represented unpatented technology arising from the acquisition of subsidiaries during the year (note 32).

16. OTHER INVESTMENTS

	2011 RMB'000	2010 RMB'000
PRC equity investments, at fair value	**145,800**	127,710

The balance as at 31 December 2011 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 2011 and 2010. 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.

Of the seven directors of Sanlian, three 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 2011, the fair value of these investments was based on quoted market price of the listed shares, which was RMB5.4 per share. Because the quoted market price of the shares was not available as at 31 December 2010, the fair value of these investments was determined by the directors of the Company, based on various sources of information and assumptions, at RMB4.73 per share.

During the year, the gross gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB18,090,000 (2010: loss of RMB25,650,000). The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

During the year ended 31 December 2011, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB5,297,000 (2010: RMB2,989,000).

17. LEASE PREPAYMENTS

Group

	Notes	2011 RMB'000	2010 RMB'000
Prepaid land lease payments	*(i)*	**40,461**	41,638
Rental prepayments	*(ii)*	**362,710**	346,146
		403,171	387,784

Notes:

(i) Prepaid land lease payments

Group

	2011 RMB'000	2010 RMB'000
Carrying amount at 1 January	**41,638**	42,815
Recognised during the year	**(1,177)**	(1,177)
Carrying amount at 31 December	**40,461**	41,638

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

(ii) The balances at 31 December 2011 and 2010 represented the non-current portion of rental prepayments.

Included in rental prepayments as at 31 December 2011 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 RMB52,341,000 (31 December 2010: RMB58,953,000) (note 36(a)(vi)).

18. DEFERRED TAX

Group

	Note	Balance at 1 January 2011 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in the consolidated statement of comprehensive income RMB'000	Balance at 31 December 2011 RMB'000
Deferred tax assets:					
Tax losses	*(i)*	13,965	27,742	–	41,707
Fair value adjustment on investment properties		5,175	(3,032)	–	2,143
Fair value adjustment on transfer of owner-occupied properties to investment properties		20,373	2,440	–	22,813
		39,513	27,150	–	66,663
Deferred tax liabilities:					
Fair value adjustment on acquisition		68,952	(20,050)	–	48,902
Fair value adjustment on investment properties		3,226	1,678	–	4,904
Fair value adjustment on transfer of owner-occupied properties to investment properties		38,970	–	185	39,155
		111,148	(18,372)	185	92,961

18. DEFERRED TAX *(continued)*

Group *(continued)*

	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

Notes:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB386.0 million (2010: RMB326.8 million), that are available indefinitely, and in the PRC of RMB1,512.9 million (2010: RMB970.5 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 2011 amounted to RMB45,522,000 (2010: RMB7,332,000).

At 31 December 2011, 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. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB6,873,411,000 at 31 December 2011 (2010: RMB5,028,971,000).

19. DESIGNATED LOANS

The designated loan to Beijing Zhansheng

The designated loan of RMB3,600 million as at 31 December 2011 (31 December 2010: 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 with a maturity date on 14 December 2011 with an interest rate of 4.86% per annum. On 14 December 2011, the designated loan was further extended for a period from 15 December 2011 to 15 December 2012 with an interest rate of 5.90% per annum to reflect the current market interest rate.

The designated loan is secured by (i) the pledge of the entire registered 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 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 approval 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.

The designated loan to Huihai

The designated loan (the "Huihai Loan") of RMB48 million as at 31 December 2010 represented the aggregate amount of a loan provided to Huihai through the Beijing branch of China Bohai Bank Co., Ltd.. The Huihai Loan was 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. The Huihai Loan had a term of five years and bore interest at a rate of 4.86% per annum, which was determined by reference to the interest rate published by the People's Bank of China. In January 2011, the Group acquired Huihai which became a subsidiary of the Company and this intra-group designated loan has been eliminated on consolidation.

20. INVESTMENTS IN SUBSIDIARIES

Company

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**5,389,635**	5,389,635
Amounts due from subsidiaries	**5,163,145**	4,800,245
	10,552,780	10,189,880
Impairment	**(46,925)**	(46,925)
	10,505,855	10,142,955

The balances with subsidiaries are interest-free, unsecured and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

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	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	Cayman Islands	HK$235,662,979	100	–	Investment holding
Hong Kong Punching Centre Limited	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 *(viii)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*

20. 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
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)*

20. 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)*

20. 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
Beijing Pengze Real Estate Company Limited *(i)* 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding
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)*

20. 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
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)*
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)*

20. 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
Shandong Longji Island Construction Company Limited *(i)* 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
Suzhou Jiayue Trading Company Limited *(viii)* 蘇州嘉悦商貿有限公司	PRC	US$49.9 million	–	100	*Note (iv)*
Xuzhou Pengze Trading Company Limited *(i) (viii)* 徐州鵬澤商貿有限公司	PRC	US$99 million	–	100	*Note (iv)*
Xinjiang Hongsheng Logistics Company Limited *(i) (viii)* 新疆鴻盛物流有限公司	PRC	US$50 million	–	100	*Note (iv)*
Tianjin Pengze Logistics Company Limited *(i) (viii)* 天津鵬澤物流有限公司	PRC	US$50 million	–	100	*Note (iv)*
Xining Gome Electrical Appliance Company Limited *(i)* 西寧國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)(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) 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.

21. INVENTORIES

Group

	2011 RMB'000	2010 RMB'000
Merchandise for resale	**9,554,432**	7,990,540
Consumables	**70,612**	94,431
	9,625,044	8,084,971

As at 31 December 2011, the Group's inventories amounting to RMB540 million (31 December 2010: RMB500 million) were pledged as security for the Group's bank loans (note 26) and bills payable (note 27).

22. 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

	2011 RMB'000	2010 RMB'000
Outstanding balances, aged:		
Within 3 months	**195,274**	204,240
3 to 6 months	**1,736**	1,489
6 months to 1 year	**2,588**	284
Over 1 year	**–**	89
	199,598	206,102

The balance at 31 December 2011 included the trade receivables from Dazhong Appliances of RMB22,550,000 (2010: RMB118,223,000). During the year, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB2,220,055,000 (2010: RMB1,430,654,000).

22. TRADE AND BILLS RECEIVABLES *(continued)*

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

Group

	2011 **RMB'000**	2010 RMB'000
Neither past due nor impaired	**149,081**	197,356
Less than 3 months past due	**46,193**	6,884
Over 3 months past due	**4,324**	1,862
	199,598	206,102

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

Receivables that were past due but not impaired relate 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 and non-interest-bearing.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Notes	**2011** **RMB'000**	2010 RMB'000
Prepayments	*(i)*	**573,881**	442,914
Advances to suppliers		**941,940**	586,027
Other deposits and receivables		**1,818,619**	1,106,263
Receivables from Wuhan Yinhe	*(ii)*	**166,586**	166,586
Prepayments for acquisition of properties	*(iii)*	**21,129**	21,129
Management and purchasing service fees receivable from Dazhong Appliances	*(iv)*	**206,124**	123,132
		3,728,279	2,446,051

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

Company

	2011	2010
	RMB'000	RMB'000
Prepayments	**2,388**	4,573
Other receivables	**886**	507
	3,274	5,080

Notes:

(i) The balance includes the current portion of the rental prepayments to Centergate Technologies amounting to RMB6,612,000 as at 31 December 2011 (31 December 2010: 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 received 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 Jones Lang LaSalle to determine the market value of the frozen property. The market value of the relevant property as at 31 December 2011 was RMB238,760,000, based on an open market approach, pursuant to the valuation report.

(iii) The balance represented a deposit made by the Group for acquisition of certain commercial properties in the PRC. Due to the breach of contract by the vendor, the commercial properties were not delivered and the Group filed a civil action against the vendor in January 2010. The judgement made by the court of first instance was in favour of the Group. In June 2011, the vendor appealed to a higher court for judgement. By 31 December 2011, the vendor withdrew the appeal and the first instance of the court took effect. In the opinion of the directors, the Group is able to recover the receivable.

(iv) In the opinion of the directors, the management fees receivable from Dazhong Appliances will be settled before 30 June 2012.

24. DUE FROM/TO RELATED PARTIES

Group

	Notes	2011 RMB'000	2010 RMB'000
Due from related parties			
Receivables from the Non-listed GOME Group	*(i)*	**169,390**	246,607
Others	*(ii)*	**–**	4,683
		169,390	251,290
Due to related parties			
Payables to the Non-listed GOME Group	*(iii)*	**–**	97,826

Notes:

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

(ii) The balance as at 31 December 2010 included receivables from Mr. Chen Xiao, a former director of the Company who resigned on 10 March 2011, of RMB811,000 and a loan to other key management personnel of the Group of RMB3,000,000, which also represented the maximum amount outstanding during the year.

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

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**5,314,828**	5,716,500
Time deposits	**5,045,668**	6,784,080
	10,360,496	12,500,580
Less: Pledged time deposits for bills payable	**(4,388,998)**	(6,268,130)
Cash and cash equivalents	**5,971,498**	6,232,450

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

Company

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**119,965**	1,037,381
Time deposits	**656,670**	515,950
Cash and cash equivalents	**776,635**	1,553,331

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

Group

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**5,314,828**	5,716,500
Short term deposits, non-pledged	**656,670**	515,950
Cash and cash equivalents	**5,971,498**	6,232,450

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB10,092,393,000 (31 December 2010: RMB12,086,775,000). 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.

26. INTEREST-BEARING BANK LOANS

Group

	2011 RMB'000	2010 RMB'000
PRC bank loans – secured, within one year	–	100,000

The Group's bank loans as at 31 December 2010 are all denominated in RMB and bear interest at a rate of 5.31% per annum.

The Group's bank loans are secured by guarantees and pledges as set out in note 27.

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

27. TRADE AND BILLS PAYABLES

Group

	2011 RMB'000	2010 RMB'000
Trade payables	7,177,734	5,757,564
Bills payable	9,962,649	11,142,119
	17,140,383	16,899,683

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:

	2011 RMB'000	2010 RMB'000
Within 3 months	12,228,210	8,163,552
3 to 6 months	4,631,032	8,443,194
Over 6 months	281,141	292,937
	17,140,383	16,899,683

27. TRADE AND BILLS PAYABLES *(continued)*

The Group's bills payable is secured by:

(i) the pledge of the Group's time deposits (note 25);

(ii) the pledge of certain of the Group's inventories (note 21);

(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 executed 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.

28. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	Notes	**2011 RMB'000**	2010 RMB'000
Customers' deposits		**236,252**	765,408
Consideration payable for the acquisition of subsidiaries	*(i)*	**240**	7,240
Deferred revenue	*(ii)*	**88,077**	88,268
Other payables and accruals		**1,198,746**	959,083
		1,523,315	1,819,999

Notes:

(i) The balances represented outstanding purchase considerations for acquisition of subsidiaries.

(ii) The deferred revenue refers to the accrual and release of the undeemed points in respect of a loyalty points programme operated by the Group. A reconciliation of the deferred revenue is as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	**88,268**	61,619
Arising during the year	**118,974**	105,967
Revenue recognised on utilised points	**(81,293)**	(66,956)
Revenue recognised on expired points	**(37,872)**	(12,362)
At 31 December	**88,077**	88,268

29. CONVERTIBLE BONDS

	Notes	2011 RMB'000	2010 RMB'000
Liability components:			
Old 2014 Convertible Bonds	*(i)*	**137,567**	129,976
New 2014 Convertible Bonds	*(ii)*	**1,974,043**	1,814,069
		2,111,610	1,944,045
Classified as current liabilities		**(2,111,610)**	(129,976)
Non-current liabilities		**–**	1,814,069

(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;

(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 the 20 consecutive trading days are over 130% of the early redemption price.

29. CONVERTIBLE BONDS *(continued)*

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

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 2010 and 2011. No adjustment was made to the conversion price during the year ended 31 December 2011.

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 amount of redemption gain which related to the liability component amounting to RMB202,578,000 was recognised in profit or loss.

As at 31 December 2011, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding.

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for 2010 and 2011 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 2010	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 and 1 January 2011	**129,976**	**(7,349)**	**287,483**	**410,110**
Interest expenses	**7,591**	**–**	**–**	**7,591**
Fair value adjustment	**–**	**7,349**	**–**	**7,349**
At 31 December 2011	**137,567**	**–**	**287,483**	**425,050**

The fair values of the derivative component were determined based on the valuations performed by Jones Lang LaSalle, an independent firm of professional valuers, using the applicable option pricing model.

29. CONVERTIBLE BONDS *(continued)*

(ii) 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.

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.

The conversion price of the New 2014 Convertible Bonds was adjusted from HK$2.8380 per share to HK$2.79 per share (at the fixed rate of HK$1.1351 to RMB1.00) effective from 11 June 2011 (Hong Kong time) to reflect the effect of 2010 final dividends approved by the shareholders of the Company on 10 June 2011 of HK$4.1 cents (equivalent to RMB3.5 fen) per share and the change was announced on 21 June 2011.

29. CONVERTIBLE BONDS *(continued)*

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

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.

As at 31 December 2011, the New 2014 Convertible Bonds with an aggregate principal amount of RMB2,357.2 million remained outstanding.

The movements of the liability component and equity component of the New 2014 Convertible Bonds for 2010 and 2011 are as follows:

	Liability component of convertible bonds RMB'000	**Equity component of convertible bonds RMB'000**	**Total RMB'000**
At 1 January 2010	1,672,176	688,021	2,360,197
Interest expenses	212,609	–	212,609
Interest paid	(70,716)	–	(70,716)
At 31 December 2010 and 1 January 2011	**1,814,069**	**688,021**	**2,502,090**
Interest expenses	**230,690**	**–**	**230,690**
Interest paid	**(70,716)**	**–**	**(70,716)**
At 31 December 2011	**1,974,043**	**688,021**	**2,662,064**

29. CONVERTIBLE BONDS *(continued)*

(iii) 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.

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 should on 3 August 2016, the bond maturity date, redeem in USD all the bonds then outstanding at a USD amount equivalent to 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.

29. CONVERTIBLE BONDS *(continued)*

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

Based on the terms and conditions of the 2016 Convertible Bonds, the exercise of the conversion option would 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.

On 15 September 2010, the 2016 Convertible Bonds were converted 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 movements of the liability component and equity component of the 2016 Convertible Bonds for 2010 are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
At 1 January 2010	**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. ISSUED CAPITAL

	Number of shares '000	HK$'000	Equivalent to RMB'000
Authorised:			
Ordinary shares of HK$0.025 each at 1 January 2011 and 31 December 2011	**200,000,000**	**5,000,000**	**5,300,000**
Issued and fully paid:			
Ordinary shares of HK$0.025 each at 1 January 2010	15,055,332	376,384	382,408
2016 Convertible Bonds conversed *(note (i))*	1,630,702	40,767	35,178
Share options exercised *(note 31)*	3,726	93	80
Ordinary shares of HK$0.025 each at 31 December 2010 and 1 January 2011	**16,689,760**	**417,244**	**417,666**
Warrants exercised *(note (ii))*	**108,790**	**2,720**	**2,300**
Shares repurchased *(note (iii))*	**(8,792)**	**(220)**	**(179)**
Share options exercised *(note 31)*	**83,798**	**2,095**	**1,734**
Ordinary shares of HK$0.025 each at 31 December 2011	**16,873,556**	**421,839**	**421,521**

Notes:

(i) 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 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.

(ii) The Company received an exercise notice from the holder of the warrants 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 of HK$0.025 each were issued by the Company to the Warrantholder on 24 January 2011 at the exercise price of US$0.2298 per share (equivalent to RMB1.51 per share) and the difference between the par value and aggregate exercise price of RMB162,125,000 has been credited to the share premium account. After the exercise of the warrants, the Company does not have any outstanding warrants.

(iii) On 12 October 2011, the Company repurchased 8,792,000 ordinary shares of the Company at a total consideration of HK$17,832,000 (equivalent to RMB14,574,000). The repurchased shares were cancelled on 31 October 2011. The aggregate amount of premium and related costs paid on the share repurchase of approximately RMB14,395,000 was debited to the share premium.

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. 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.

31. SHARE OPTION SCHEME *(continued)*

As approved on 5 December 2011 by the shareholders at a special general meeting, changes were made to the Scheme including the exercise period of the share options and performance targets to the grantees for the share option granted. Further details are set out in the Company's announcement on 18 November 2011.

According to IFRS 2 *Share-based Payment*, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted). The fair values of the share options immediately after such modifications were reduced according to the valuation performed by Jones Lang LaSalle. Accordingly, the above modifications to the Scheme do not have impact to the financial statements.

The following share options were outstanding under the Scheme during the year:

	2011		2010	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.90**	**350,974**	1.90	374,700
Exercised during the year *(note (i))*	**1.90**	**(83,798)**	1.90	(3,726)
Cancelled during the year *(note (ii))*	**1.90**	**(76,840)**	1.90	–
Forfeited during the year	**1.90**	**(31,750)**	1.90	(20,000)
At 31 December	**1.90**	**158,586**	1.90	350,974

Notes:

(i) The weighted average share price at the date of exercise for share options exercised during the year was HK$3.17 per share (2010: HK$3.12 per share).

(ii) During the year, the Company cancelled 76,840,000 unvested share options without any compensation payment to the related grantees who agreed with the cancellation. These share options were cancelled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied). The Group accounted for the cancellation as an acceleration of vesting, and therefore recognised immediately the amount of RMB20,608,000 (2010: Nil) that otherwise would have been recognised for services received over the remainder of the vesting period.

31. SHARE OPTION SCHEME *(continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
81,076	**1.90**	**on or before 15 November 2012**
15,502	**1.90**	**between 15 May 2012 and 15 November 2012**
27,129	**1.90**	**between 15 May 2013 and 15 November 2013**
23,253	**1.90**	**between 15 May 2014 and 15 November 2014**
11,626	**1.90**	**between 15 May 2015 and 15 November 2015**
158,586		

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
350,974		

* 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 Group recognised a share option expense of RMB54,071,000 including the cost due to cancellation of share options during the year ended 31 December 2011 (2010: RMB93,803,000).

The 83,797,800 share options exercised during the year resulted in the issue of 83,797,800 ordinary shares of the Company and share capital of HK$2,095,000 (equivalent to approximately RMB1,734,000) and share premium of HK$219,088,000 (equivalent to approximately RMB181,383,000) (before issue expenses), as further detailed in note 30 to the financial statements.

At the end of the reporting period, the Company had 158,586,000 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 158,586,000 additional ordinary shares of the Company and additional share capital of HK$3,965,000 (equivalent to approximately RMB3,283,000) and share premium of HK$297,349,000 (equivalent to approximately RMB246,175,000) (before issue expenses and amount transfer from related share option reserve).

At the date of approval of the consolidated financial statements, the Company had 157,086,000 share options outstanding under the Scheme, which represented approximately 0.93% of the Company's shares in issue as at that date.

32. BUSINESS COMBINATION

In order to better develop online sales, in January 2011, the Group acquired, via contractual arrangements, 100% equity interest of Huihai and its 80% equity interest of an internet operating company, Kuba, which holds necessary licenses and permits for providing internet information services and other services related to e-business operation.

By entering into various agreements during August 2010 to January 2011, the Group obtained unilateral control over Huihai on 1 January 2011. The Group has elected to measure the non-controlling interests in Kuba at the non-controlling interests' proportionate share of Kuba's identifiable net assets.

The fair values of the identifiable assets and liabilities of Huihai and Kuba as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Cash and cash equivalents	41,835
Inventories	17,337
Other receivables	8,571
Equipment	1,617
Intangible assets	1,725
Trade payables	(13,500)
Customers' deposits and other payables	(14,323)
Total identifiable net assets at fair value	43,262
Non-controlling interests	(8,052)
Total identifiable net assets acquired at fair value	35,210
Goodwill arising on acquisition	15,790
	51,000
Satisfied by:	
Designated loan	48,000
Cash paid in the prior year included in amounts due from related parties	3,000
	51,000
Net cash and cash equivalents acquired (included in cash flows from investing activities)	41,835

32. BUSINESS COMBINATION *(continued)*

Since the acquisition in January 2011, Huihai and Kuba contributed a revenue of RMB946,364,000 and a net loss before tax of RMB198,911,000 to the Group for the year ended 31 December 2011.

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition. None of the recognised goodwill is expected to be deductible for income tax purposes.

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 2010		7,440,787	42,849	163,509	70,533	(49,695)	(216,616)	7,451,367
Profit for the year and total comprehensive income for the year		–	–	–	–	–	934,829	934,829
Redemption of the Old 2014 Convertible Bonds	*29(i)*	–	–	(683,330)	–	–	–	(683,330)
Conversion of the 2016 Convertible Bonds	*29(iii)*	1,678,681	–	(137,411)	–	–	–	1,541,270
Exercise of share options	*31*	8,179	–	–	(2,192)	–	–	5,987
Equity-settled share option arrangements	*31*	–	–	–	93,803	–	–	93,803
Proposed final 2010 dividend	*34*	–	–	–	–	–	(582,275)	(582,275)
At 31 December 2010 and 1 January 2011		**9,127,647**	**42,849**	**(657,232)**	**162,144**	**(49,695)**	**135,938**	**8,761,651**
Profit for the year and total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**39,029**	**39,029**
Exercise of warrants	*30(ii)*	**162,125**	**-**	**-**	**-**	**-**	**-**	**162,125**
Repurchase of shares	*30(iii)*	**(14,395)**	**-**	**-**	**-**	**-**	**-**	**(14,395)**
Exercise of share options	*31*	**181,383**	**-**	**-**	**(51,302)**	**-**	**-**	**130,081**
Equity-settled share option arrangements	*31*	**-**	**-**	**-**	**54,071**	**-**	**-**	**54,071**
Dividends paid	*34*	**-**	**-**	**-**	**-**	**-**	**(382,483)**	**(382,483)**
At 31 December 2011		**9,456,760**	**42,849**	**(657,232)**	**164,913**	**(49,695)**	**(207,516)**	**8,750,079**

33. RESERVES *(continued)*

(b) Company *(continued)*

Notes:

(i) The profit attributable to owners of the parent company for the year ended 31 December 2011 dealt with in the financial statements of the Company was approximately RMB39,029,000 (2010: RMB934,829,000).

(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 the retained earnings should the related options expire or be forfeited after vesting date.

34. DIVIDENDS

	2011 **RMB'000**	2010 RMB'000
Interim: HK$2.7 cents (equivalent to RMB2.2 fen) per ordinary share (2010: Nil)	**382,483**	–
Proposed final: HK$4.1 cents (equivalent to RMB3.5 fen) per ordinary share	**–**	582,275
	382,483	582,275

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 life ranging from 1 to 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:

	2011	2010
	RMB'000	RMB'000
Within one year	**2,892,751**	2,243,678
In the second to fifth years, inclusive	**8,946,024**	6,964,026
After five years	**4,792,357**	3,690,091
	16,631,132	12,897,795

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 ranging from 1 to 13 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. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then 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:

	2011	2010
	RMB'000	RMB'000
Within one year	**217,362**	193,513
In the second to fifth years, inclusive	**581,229**	544,309
After five years	**315,916**	315,666
	1,114,507	1,053,488

(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:

	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Acquisition of buildings	**78,414**	118,571
Construction of equipment	**40,624**	58,788
	119,038	177,359

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere to the 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	**2011** **RMB'000**	2010 RMB'000
Sales to the Non-listed GOME Group*	*(i)*	**792,869**	595,362
Purchases from the Non-listed GOME Group	*(i)*	**(66,996)**	(125,064)
Provision of management and purchasing services to the Non-listed GOME Group	*(ii), 5*	**250,000**	250,000
Rental expenses and other expenses to Beijing Xinhengji and the Non-listed GOME Group	*(iii)*	**(48,483)**	(52,985)
Rearrangement of rental expenses and other expenses for year 2009 to the Non-listed GOME Group	*(iii)*	**–**	(55,242)
Corporate guarantees executed by the Non-listed GOME Group in respect of the Group's bills facilities	*(iv)*	**–**	30,000
Rental income from a related party	*(v)*	**328**	517
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. ("Beijing Gome"), Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries are collectively referred to as the "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 Kwong Yu ("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 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 and completion of registration of ownership assignment with the relevant PRC authorities is still pending.

Beijing Centergate Technologies (Holding) Co., Ltd. ("Centergate Technologies") is a listed company in the PRC over 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 would provide and would 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. 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 would provide and would 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 amounts of the management service fee and the purchasing service fee were 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) On 18 March 2011, the Group entered into lease agreements and supplemental agreements with Beijing Pengrun Property and Beijing Gome to record and confirm the use and occupation by the Group of some other properties in 2009 and 2010 and to revise rentals for these two years. The Group also entered into lease agreements with Beijing Pengrun Property and Beijing Gome to set out the terms of use by the Group of some properties in 2011 and 2012. The rental expenses incurred by the Group payable to Beijing Pengrun Property and Beijing Gome amounting to RMB35,343,000 and RMB13,140,000 respectively for the year ended 31 December 2011 and they were settled as at 31 December 2011. The transactions constitute continuing connected transactions under the Listing Rules. Beijing Pengrun Property was authorized by Beijing Xinhengji to manage the leased properties and receive the rental from the Group since 2007.

(iv) The guarantees were provided is at nil consideration to the Group.

(v) The Group received operating lease rentals from GOME Home Appliances (Hong Kong) Limited, a company owned by Mr. Wong.

(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 2011 amounted to RMB58,953,000 (31 December 2010: RMB65,565,000), among which RMB52,341,000 (31 December 2010: RMB58,953,000) (note 17) was classified as long term and RMB6,612,000 (31 December 2010: RMB6,612,000) (note 23) was classified as short term in the financial statements.

(b) Commitments with related parties

As disclosed in note 36(a)(iii), the Group has rental arrangements with Beijing Xinhengji of RMB35,717,000 under non-cancellable operating leases falling due within one year.

36. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation of key management personnel of the Group:

	2011 **RMB'000**	2010 RMB'000
Fees	**2,823**	1,068
Other emoluments:		
Salaries, allowances, bonuses and other expense	**37,961**	21,222
Post-employment benefits	**208**	192
Equity-settled share option expense	**10,965**	40,946
	51,957	63,428

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 **2011** **RMB'000**	31 December 2010 RMB'000
Guarantees executed to banks in connection with bill facilities granted in favour of:		
Dazhong Appliances	**475,548**	351,919

(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 interest 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 Allegations against Mr. Wong and his spouse on 3 March 2011. 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 injunction 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 injunction order has no effect on the freezing order against Mr. Wong.

Up to the date of approval of these financial statements, there is no further development regarding the contingencies in (b) above. 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 year are as follows:

Group

2011

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	145,800	145,800
Designated loans	3,600,000	–	3,600,000
Trade and bills receivables	199,598	–	199,598
Financial assets included in prepayments, deposits and other receivables	2,212,458	–	2,212,458
Due from related parties	169,390	–	169,390
Pledged deposits	4,388,998	–	4,388,998
Cash and cash equivalents	5,971,498	–	5,971,498
	16,541,942	145,800	16,687,742

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	17,140,383
Financial liabilities included in customers' deposits, other payables and accruals	788,619
Liability components of convertible bonds	2,111,610
	20,040,612

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

2010

Financial assets

	Financial assets at fair value through profit or loss RMB'000	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
Derivative component of convertible bonds	7,349	–	–	7,349
Pledged deposits	–	6,268,130	–	6,268,130
Cash and cash equivalents	–	6,232,450	–	6,232,450
	7,349	18,023,082	127,710	18,158,141

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	100,000
Trade and bills payables	16,899,683
Financial liabilities included in customers' deposits, other payables and accruals	728,131
Due to related parties	97,826
Liability components of convertible bonds	1,944,045
	19,769,685

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2011	2010		
	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Investments in subsidiaries	**5,116,220**	–	4,753,320	4,753,320
Financial assets included in prepayments, deposits and other receivables	**886**	–	507	507
Derivative component of convertible bonds	**–**	7,349	–	7,349
Cash and cash equivalents	**776,635**	–	1,553,331	1,553,331
	5,893,741	7,349	6,307,158	6,314,507

Financial liabilities

	2011	2010
	Financial liabilities at amortised cost RMB'000	Financial liabilities at amortised cost RMB'000
Liability components of convertible bonds	**2,111,610**	1,944,045

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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Other investments	**145,800**	127,710	**145,800**	127,710
Designated loans	**3,600,000**	3,648,000	**3,600,000**	3,648,000
Trade and bills receivables	**199,598**	206,102	**199,598**	206,102
Financial assets included in prepayments, deposits and other receivables	**2,212,458**	1,417,110	**2,212,458**	1,417,110
Due from related parties	**169,390**	251,290	**169,390**	251,290
Derivative component of convertible bonds	**–**	7,349	**–**	7,349
Pledged deposits	**4,388,998**	6,268,130	**4,388,998**	6,268,130
Cash and cash equivalents	**5,971,498**	6,232,450	**5,971,498**	6,232,450
	16,687,742	18,158,141	**16,687,742**	18,158,141
Financial liabilities				
Interest-bearing bank loans	**–**	100,000	**–**	100,000
Trade and bills payables	**17,140,383**	16,899,683	**17,140,383**	16,899,683
Financial liabilities included in customers' deposits, other payables and accruals	**788,619**	728,131	**788,619**	728,131
Due to related parties	**–**	97,826	**–**	97,826
Liability components of convertible bonds	**2,111,610**	1,944,045	**2,668,669**	2,449,543
	20,040,612	19,769,685	**20,597,671**	20,275,183

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Investments in subsidiaries	**5,116,220**	4,753,320	**5,116,220**	4,753,320
Financial assets included in prepayments, deposits and other receivables	**886**	507	**886**	507
Derivative component of convertible bonds	**–**	7,349	**–**	7,349
Cash and cash equivalents	**776,635**	1,553,331	**776,635**	1,553,331
	5,893,741	6,314,507	**5,893,741**	6,314,507
Financial liabilities				
Liability components of convertible bonds	**2,111,610**	1,944,045	**2,668,669**	2,449,543

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.

The fair values of 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 value of derivative component of convertible bonds has been estimated using a valuation technique based on assumptions that are supported by unobservable market prices.

As at 31 December 2011, the fair values of available-for-sale equity investments were based on market prices of the listed shares. As at 31 December 2010, the fair values of available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are supported by observable market prices (note 16). 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 as at 31 December 2010.

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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 2011

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Other investments:				
Equity investments	**145,800**	**–**	**–**	**145,800**

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
Derivative component of convertible bonds	–	–	7,349	7,349
	–	127,710	7,349	135,059

During the year ended 31 December 2011, there was a transfer of fair value measurements of other investments from Level 2 to Level 1 because the quoted price in active markets was available at 31 December 2011 (note 16). During the year ended 31 December 2010, there was a transfer of fair value measurements of other investments from Level 1 to Level 2 because the quoted price in active markets was not available at 31 December 2010. There were no transfers into or out of Level 3 (2010: Nil).

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Assets measured at fair value: *(continued)*

Company

The Company did not have any financial assets measured at fair value as at 31 December 2011.

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

The movements in fair value measurements in Level 3 during the year are as follows:

Group and Company

	2011 RMB'000	2010 RMB'000
Derivative component of convertible bonds		
At 1 January	**7,349**	100,689
Loss recognised in the income statement *(note 29(i))*	**(7,349)**	(93,340)
At 31 December	**–**	7,349

Liabilities measured at fair value:

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2011 and 2010.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than other investments, comprise cash and bank balances, designated loans, interest-bearing bank loans, liability components of convertible bonds, derivative component of convertible bonds, trade and bills payables and other payables. The main purpose of the financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as other receivables, amounts due from related parties, trade and bills receivables and pledged deposits which arise directly from its operations.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 2011, the Group did not have debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

Foreign currency risk

As at 31 December 2011, the Group had cash and bank deposits of RMB268,103,000 (2010: RMB413,805,000), 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
2011		
If RMB weakens against USD	**5%**	**3,889**
If RMB strengthens against USD	**(5%)**	**(3,889)**
If RMB weakens against the Hong Kong dollar	**5%**	**9,516**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**(9,516)**
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)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 22 to the financial statements.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, pledged deposits, trade and bills receivables, 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. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different geographical regions.

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 2011, the Group had trade and bills payables amounting to RMB17,140,383,000 (31 December 2010: RMB16,899,683,000). In addition, as at 31 December 2011, the Group had nil bank loan balance (31 December 2010: RMB100,000,000) 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 undiscounted payments.

Group

	2011			
	Within 1 year RMB'000	**2 to 3 years RMB'000**	**Over 3 years RMB'000**	**Total RMB'000**
Convertible bonds	**2,668,669**	**–**	**–**	**2,668,669**
Trade and bills payables	**17,140,383**	**–**	**–**	**17,140,383**
Financial liabilities included in customers' deposits and other payables	**788,619**	**–**	**–**	**788,619**
Guarantees given to banks in connection with bill facilities granted in favour of Dazhong Appliances	**475,548**	**–**	**–**	**475,548**
	21,073,219	**–**	**–**	**21,073,219**

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Group

	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
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

Company

	2011			
	Within 1 year	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Convertible bonds	**2,668,669**	**–**	**–**	**2,668,669**
Other payables	**2,554**	**–**	**–**	**2,554**
	2,671,223	**–**	**–**	**2,671,223**

	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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 2011. The Group's listed investments are valued at market price as at 31 December 2011 and at appraised value as at 31 December 2010.

The market equity index for the following stock exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its highest and lowest points during the year were as follows:

	31 December 2011	**High/low 2011**	31 December 2010	High/low 2010
Shanghai – A Share Index	**2,199**	**3,067/ 2,134**	2,808	3,307/ 2,320

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 on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the other equity investments, the impact is deemed to be on the other investment revaluation reserve and no account is given for factors such as impairment which might impact on the income statements.

	Carrying amount of equity investments RMB'000	**Increase/ decrease in profit before tax RMB'000**	**Increase/ decrease in equity* RMB'000**
2011			
Investments listed in:			
Shanghai – Available-for-sale	**145,800**	**–**	**14,580**
2010			
Investments listed in:			
Shanghai – Available-for-sale	127,710	–	12,771

* 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 the liability components of convertible bonds and equity attributable to owners of the parent company. The gearing ratios as at the end of the reporting periods were as follows:

	2011	2010
	RMB'000	RMB'000
Interest-bearing bank loans	**–**	100,000
Due to related parties	**–**	97,826
Trade and bills payables	**17,140,383**	16,899,683
Customers' deposits, other payables and accruals	**1,523,315**	1,819,999
Less: Cash and cash equivalents	**(5,971,498)**	(6,232,450)
Pledged deposits	**(4,388,998)**	(6,268,130)
Net debt	**8,303,202**	6,416,928
Convertible bonds, the liability component	**2,111,610**	1,944,045
Equity attributable to owners of the parent company	**15,948,763**	14,735,187
Total capital	**18,060,373**	16,679,232
Capital and net debt	**26,363,575**	23,096,160
Gearing ratio	**31%**	28%

41. EVENTS AFTER THE REPORTING PERIOD

Share options

Subsequent to 31 December 2011, the subscription rights attaching to 1,500,000 share options were exercised at the subscription price of HK$1.9 per share, resulting in the issue of 1,500,000 shares.

New lease agreements

On 6 January 2012, the Group entered into: (i) a new lease agreement with respect to the Group's use of additional properties with Beijing Pengrun Property, pursuant to which the annual rent payable by the Group under the agreement will be a sum of approximately RMB1,197,000 (equivalent to approximately HK$1,474,300); and (ii) a lease agreement with respect to the continuous usage of a property with Beijing Gome, pursuant to which the annual rent payable by the Group under the agreement will be a sum of approximately RMB14,454,000 (equivalent to approximately HK$17,802,700) for the year ending 31 December 2012. The transactions constitute continuing connected transactions under the Listing Rules.

Save as disclosed above, the Group did not have any significant events taking place subsequent to 31 December 2011.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 27 March 2012.

Corporate Information

Directors

Executive Directors

NG Kin Wah
ZOU Xiao Chun

Non-executive Directors

ZHANG Da Zhong *(Chairman)*
ZHU Jia
Ian Andrew REYNOLDS
WANG Li Hong

Independent Non-executive Directors

SZE Tsai Ping, Michael
CHAN Yuk Sang
Thomas Joseph MANNING
LEE Kong Wai, Conway
NG Wai Hung

Company Secretary

SZETO King Pui, Albert

Authorised Representatives

NG Kin Wah
ZOU Xiao Chun

Principal Bankers

China Construction Bank
CITIC Bank
Industrial Bank
China Merchant Bank
Bank of Shanghai

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
Rosebank Centre
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

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