GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國 美 電 器 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

2012 FINANCIAL HIGHLIGHTS

- During the reporting period, the macro-economic slowdown and a series of unfavorable factors posed the biggest challenge to the Group since its inception
- Sales revenue was approximately RMB47,867 million, decreased by 19.98% as compared to the previous year
- During the reporting period, attributable to a drop in the Group's sales revenue, an increase in the Group's operating expenses as well as loss incurred by the Group's e-commerce business, loss attributable to owners of the parent company was approximately RMB597 million
- Basic loss per share were RMB0.035 as compared to earnings of RMB0.109 last year
- Through strategic transformation during the year by the Group, the performance was improved in the second half of 2012

The board of directors (the "Board") of GOME Electrical Appliances Holding Limited (the "Company") announces the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**47,867,260**	59,820,789
Cost of sales	6	**(41,664,469)**	(52,264,259)
Gross profit		**6,202,791**	7,556,530
Other income and gains	5	**1,541,381**	3,302,082
Selling and distribution expenses		**(6,803,916)**	(6,903,543)
Administrative expenses		**(1,423,057)**	(1,218,501)
Other expenses		**(418,717)**	(413,238)
(Loss)/profit from operating activities		**(901,518)**	2,323,330
Finance costs	7	**(227,708)**	(241,772)
Finance income	7	**441,221**	400,291
Fair value loss on the derivative component of convertible bonds	15(i)	**–**	(7,349)
Gains on redemption of convertible bonds	15	**34,011**	–
(LOSS)/PROFIT BEFORE TAX	6	**(653,994)**	2,474,500
Income tax expense	8	**(155,997)**	(673,154)
(LOSS)/PROFIT FOR THE YEAR		**(809,991)**	1,801,346
Attributable to:			
Owners of the parent company		**(596,614)**	1,839,867
Non-controlling interests		**(213,377)**	(38,521)
		(809,991)	1,801,346
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	9		
– Basic		**(RMB3.5 fen)**	RMB10.9 fen
– Diluted		**(RMB3.6 fen)**	RMB10.9 fen

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Note	**2012** **RMB'000**	2011 RMB'000
(LOSS)/PROFIT FOR THE YEAR		**(809,991)**	1,801,346
OTHER COMPREHENSIVE (LOSS)/INCOME			
Changes in fair value of other investments	*11*	**(21,600)**	18,090
Gains on property revaluation		**–**	741
Income tax effect		**–**	(185)
		–	556
Exchange differences on translation of foreign operations		**9,746**	(15,916)
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR, NET OF TAX		**(11,854)**	2,730
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR, NET OF TAX		**(821,845)**	1,804,076
Attributable to:			
Owners of the parent company		**(608,468)**	1,842,597
Non-controlling interests		**(213,377)**	(38,521)
		(821,845)	1,804,076

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property and equipment		**4,163,569**	3,874,370
Investment properties		**918,472**	915,226
Goodwill		**4,030,771**	4,030,771
Other intangible assets		**99,438**	108,660
Other investments	11	**124,200**	145,800
Lease prepayments and deposits		**330,953**	401,994
Deferred tax assets		**136,852**	66,663
Designated loan	12	**3,600,000**	3,600,000
Total non-current assets		**13,404,255**	13,143,484
CURRENT ASSETS			
Inventories		**7,385,352**	9,625,044
Trade and bills receivables	13	**194,746**	199,598
Prepayments, deposits and other receivables		**2,542,750**	3,729,456
Due from related parties		**101,539**	169,390
Pledged deposits		**6,019,027**	4,388,998
Cash and cash equivalents		**6,730,960**	5,971,498
Total current assets		**22,974,374**	24,083,984
CURRENT LIABILITIES			
Interest-bearing bank loans		**2,434,374**	–
Trade and bills payables	14	**16,971,671**	17,140,383
Customers' deposits, other payables and accruals		**1,631,309**	1,523,315
Due to related parties		**112,480**	–
Convertible bonds	15	**–**	2,111,610
Tax payable		**374,266**	440,905
Total current liabilities		**21,524,100**	21,216,213
NET CURRENT ASSETS		**1,450,274**	2,867,771
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,854,529**	16,011,255
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**95,263**	92,961
Derivative liability related to a cross currency swap		**4,953**	–
Total non-current liabilities		**100,216**	92,961
Net assets		**14,754,313**	15,918,294
EQUITY			
Equity attributable to owners of the parent company			
Issued capital		**421,551**	421,521
Reserves		**14,727,528**	15,527,242
		15,149,079	15,948,763
Non-controlling interests		**(394,766)**	(30,469)
Total equity		**14,754,313**	15,918,294

Notes:

1. CORPORATE INFORMATION

GOME Electrical Appliances Holding Limited 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 26 Burnaby Street, Hamilton HM11, Bermuda.

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

2. 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 are classified as available-for-sale financial assets, the derivative liability related to a cross currency swap 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.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following 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 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these 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 operation 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 or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss 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, gain on redemption of the New 2014 Convertible Bonds, fair value loss on a cross currency swap and corporate and other unallocated expenses are excluded from this measurement.

4. OPERATING SEGMENT INFORMATION (Continued)

Segment assets exclude deferred tax assets, pledged deposits, other investments and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, convertible bonds, the derivative liability related to a cross currency swap, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

	2012	2011
	RMB'000	*RMB'000*
Segment revenue		
Sales to external customers	**47,867,260**	59,820,789
Segment results	**(670,344)**	2,629,103
Reconciliation:		
Bank interest income	**230,019**	223,593
Unallocated income	**31,998**	4,872
Fair value loss on the derivative component of convertible bonds	**–**	(7,349)
Gain on redemption of the Old 2014 Convertible Bonds	**15,998**	–
Gain on redemption of the New 2014 Convertible Bonds	**18,013**	–
Fair value loss on a cross currency swap	**(4,953)**	–
Finance costs	**(227,708)**	(241,772)
Corporate and other unallocated expenses	**(47,017)**	(133,947)
(Loss)/profit before tax	**(653,994)**	2,474,500
Segment assets	**23,367,590**	26,654,509
Reconciliation:		
Corporate and other unallocated assets	**13,011,039**	10,572,959
Total assets	**36,378,629**	37,227,468
Segment liabilities	**18,715,460**	18,663,698
Reconciliation:		
Corporate and other unallocated liabilities	**2,908,856**	2,645,476
Total liabilities	**21,624,316**	21,309,174
Other segment information		
Depreciation and amortisation	**460,660**	406,439
Capital expenditure*	**783,175**	869,476

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

Geographical information

(a) Revenue from external customers

	2012	2011
	RMB'000	*RMB'000*
Mainland China	**47,867,260**	59,820,789

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

4. OPERATING SEGMENT INFORMATION (Continued)

(b) Non-current assets

	2012 *RMB'000*	2011 *RMB'000*
Mainland China	**9,517,640**	9,315,893
Hong Kong	**25,563**	15,128
	9,543,203	9,331,021

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	**2012** *RMB'000*	2011 *RMB'000*
Revenue			
Sale of electrical appliances and consumer electronic products		**47,867,260**	59,820,789
Other income			
Income from suppliers, net		**521,951**	2,079,355
Management and purchasing service fees from the Non-listed GOME Group	*(i)*	**250,000**	250,000
Management fee for managing Dazhong Appliances	*(ii)*	**–**	104,547
Income from air-conditioner installation		**90,948**	134,488
Gross rental income		**227,446**	228,635
Government grants	*(iii)*	**185,285**	166,027
Other service fee income		**76,897**	63,270
Income from compensation		**14,316**	13,764
Other income from telecommunication service providers		**73,552**	117,136
Others		**50,196**	119,210
		1,490,591	3,276,432
Gains			
Fair value gain on investment properties		**29,739**	25,650
Foreign exchange difference, net		**21,051**	–
		50,790	25,650
		1,541,381	3,302,082

Notes:

(i) Beijing Eagle Investment Co., Ltd., Beijing Pengrun Property Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., 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, a substantial shareholder and the former chairman of the Company.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(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 and on 5 December 2012. 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. According to the Management Agreement, no management fees are attributable to the Group if the net profit before deduction of such management fees is not sufficient to cover the interest expense of the Designated Loan (note 12) and the shortfall to cover the interest expense of the Designated Loan can be deducted from future management fees. During the year ended 31 December 2012, Dazhong Appliances did not generate sufficient profit to pay the interest expense of the Designated Loan and therefore no management fees were payable to the Group.

(iii) Various local government grants were received to reward the Group's contributions to the local economy and reimburse the expenses incurred by the Group under "Home Appliances Replacement Policy". There was no unfulfilled condition or contingency attaching to these government grants.

6. LOSS/PROFIT BEFORE TAX

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

	Notes	**2012** *RMB'000*	2011 *RMB'000*
Cost of inventories sold		**41,664,469**	52,264,259
Depreciation		**451,438**	397,217
Amortisation of intangible assets	*(i)*	**9,222**	9,222
Loss on disposal of items of property and equipment		**6,796**	498
Minimum lease payments under operating leases in respect of land and buildings		**3,097,154**	2,730,814
Gross rental income	*5*	**(227,446)**	(228,635)
Fair value loss on transfer of owner-occupied properties to investment properties		**–**	9,756
Fair value gain on investment properties		**(29,739)**	(25,650)
Management fee for managing Dazhong Appliances	*5*	**–**	(104,547)
Interest income from Beijing Zhansheng	*7*	**(211,202)**	(176,698)
Fair value loss on the derivative component of convertible bonds	*15(i)*	**–**	7,349
Gain on redemption of the Old 2014 Convertible Bonds	*15(i)*	**(15,998)**	–
Gain on redemption of the New 2014 Convertible Bonds	*15(ii)*	**(18,013)**	–
Fair value loss on a cross currency swap		**4,953**	–
Foreign exchange differences, net		**(21,051)**	31,295
Auditors' remuneration			
– audit services		**5,782**	8,400
– non-audit services		**1,014**	1,680
Staff costs excluding directors' and chief executive's remuneration:			
Wages, salaries and bonuses		**1,813,239**	1,857,473
Pension scheme contributions*		**418,210**	385,933
Social welfare and other costs		**35,170**	16,337
Equity-settled share option expense		**(515)**	54,140
		2,266,104	2,313,883

6. **LOSS/PROFIT BEFORE TAX (Continued)**

Note:

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

* At 31 December 2012, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2011: Nil).

7. **FINANCE (COSTS)/INCOME**

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

	Notes	**2012** *RMB'000*	2011 *RMB'000*
Finance costs:			
Interest on bank loans wholly repayable within five years		**(43,131)**	(3,491)
Interest expenses on convertible bonds	*15*	**(184,577)**	(238,281)
		(227,708)	(241,772)
Finance income:			
Bank interest income		**230,019**	223,593
Other interest income	*(i)*	**211,202**	176,698
		441,221	400,291

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan (note 12) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest ranging from 5.90% to 5.40% (2011: ranging from 4.86% to 5.90%) per annum, which was determined by reference to the interest rates published by the People's Bank of China.

8. **INCOME TAX EXPENSE**

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

	2012 *RMB'000*	2011 *RMB'000*
Current income tax – PRC	**223,884**	718,676
Deferred income tax	**(67,887)**	(45,522)
Total tax charge for the year	**155,997**	673,154

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.

8. INCOME TAX EXPENSE (Continued)

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% (2011: 25%) on their respective taxable income. During the year, 22 entities (2011: 36 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

The Group realised 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 2012 and 2011, as the Group had no assessable profits arising in Hong Kong for the respective years.

A reconciliation of the tax expense applicable to profit or 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 rate, is as follows:

			2012		
	Hong Kong		***PRC***		***Total***
	RMB'000	***%***	***RMB'000***	***%***	***RMB'000***
Loss before tax	**(202,769)**		**(451,225)**		**(653,994)**
Income tax at the statutory tax rate	**(33,457)**	**16.5**	**(112,806)**	**25.0**	**(146,263)**
Tax effect of preferential tax rates	**–**		**(33,304)**		**(33,304)**
Income not subject to tax	**(12,550)**		**(3,286)**		**(15,836)**
Expense not deductible for tax	**42,411**		**192**		**42,603**
Tax losses utilised from previous years	**–**		**(20,988)**		**(20,988)**
Tax losses not recognised	**3,596**		**326,189**		**329,785**
Tax charge at the Group's effective rate	**–**		**155,997**		**155,997**

			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

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 2012, 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 (2011: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

9. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY

The calculation of the basic loss or earnings per share is based on the loss or profit for the year attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares of 16,874,829,000 (2011: 16,843,258,000) in issue during the year.

The calculation of the diluted loss or earnings per share is based on the loss or profit for the year attributable to ordinary equity holders of the parent company, adjusted to reflect the interest on the convertible bonds and gains on redemption of the convertible bonds. The weighted average number of ordinary shares used in the calculation of diluted loss or earnings per share is the weighted average number of ordinary shares in issue during the year, as used in the basic loss or 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 loss or earnings per share are based on:

	2012	2011
	RMB'000	*RMB'000*
Loss or earnings		
(Loss)/profit attributable to ordinary equity holders of the parent company used in the basic (loss)/earnings per share calculation	**(596,614)**	1,839,867
Interest on the Old 2014 Convertible Bonds	**3,417**	–
Gain on redemption of the Old 2014 Convertible Bonds	**(15,998)**	–
(Loss)/profit attributable to ordinary equity holders of the parent company as adjusted for the effect of dilution	**(609,195)**	1,839,867

		Number of shares	
		2012	*2011*
	Notes	**'000**	'000
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic loss or earnings per share calculation		**16,874,829**	16,843,258
Effect of dilution – weighted average number of ordinary shares:			
Warrants	*(i)*	**–**	2,527
Share options		**–**	67,409
Convertible bonds	*(ii)*	**14,822**	–
		16,889,651	16,913,194

Notes:

(i) On 28 January 2006 and 28 February 2006, the Company and Warburg Pincus Private Equity IX, L.P. ("Warburg Pincus") entered into a subscription agreement and a supplemental agreement, respectively, pursuant to which the Company issued warrants at a subscription price of US$3,000,000 to a subsidiary of Warburg Pincus on 1 March 2006. The holder of the warrants is entitled to subscribe for a maximum amount of US$25,000,000 of new shares of the Company during an exercise period of five years commencing from 1 March 2006 (the "Warrants").

9. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY (Continued)

The Company received an exercise notice from the holder of the Warrants (the "Warrantholder") on 17 January 2011 to exercise in full its right under the Warrants to subscribe for new ordinary shares in the Company of HK$0.025 each in the amount of US$25,000,000. An aggregate of 108,790,252 ordinary shares have been issued by the Company to the Warrantholder on 24 January 2011 at an exercise price of US$0.2298 per share. After the exercise of the Warrants, the Company does not have any outstanding Warrants.

(ii) 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.

The New 2014 Convertible Bonds had an anti-dilutive effect on the basic loss per share for the year ended 31 December 2012 and were therefore not included in the calculation of the diluted loss per share. Only the effect of the Old 2014 Convertible Bonds was included in the calculation of the diluted loss per share for the year ended 31 December 2012. The Old 2014 Convertible Bonds that were redeemed during the year ended 31 December 2012 were included in the calculation of the diluted loss per share only for the portion of the year during which they were outstanding.

10. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Final dividend: Nil (2010: HK4.1 cents (equivalent to RMB3.5 fen)) per ordinary share	–	582,275
Interim dividend: Nil (2011: HK2.7 cents (equivalent to RMB2.2 fen)) per ordinary share	–	382,483
	–	964,758

11. OTHER INVESTMENTS

	2012	2011
	RMB'000	*RMB'000*
PRC equity investments, at fair value	**124,200**	145,800

The balance as at 31 December 2012 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 2012 and 2011. 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 2012, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB4.6 per share (31 December 2011: RMB5.4 per share).

During the year, the gross loss in respect of the Group's other investments recognised in other comprehensive loss or income amounted to RMB21,600,000 (2011: gain of RMB18,090,000). 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 2012, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB1,164,000 (2011: RMB5,297,000).

12. DESIGNATED LOAN

The designated loan of RMB3,600 million as at 31 December 2012 (31 December 2011: RMB3,600 million) represented the aggregate amount of a loan provided to Beijing Zhansheng by the Group through the Beijing Branch of Industrial Bank Co., Ltd.. The loan had a maturity date on 15 December 2012 and was extended on 5 December 2012 to 4 December 2015 with an interest rate of 5.40% 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 agreements dated 15 December 2009 and 5 December 2012, 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.

13. 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

	2012	2011
	RMB'000	*RMB'000*
Outstanding balances, aged:		
Within 3 months	**187,326**	195,274
3 to 6 months	**4,495**	1,736
6 months to 1 year	**2,925**	2,588
Over 1 year	**–**	–
	194,746	199,598

The balance at 31 December 2012 included the trade receivables from Dazhong Appliances of RMB16,698,000 (2011: RMB22,550,000). During the year, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB2,771,104,000 (2011: RMB2,220,055,000).

13. TRADE AND BILLS RECEIVABLES (Continued)

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

Group

	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**163,842**	149,081
Less than 3 months past due	**23,484**	46,193
Over 3 months past due	**7,420**	4,324
	194,746	199,598

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.

14. TRADE AND BILLS PAYABLES

Group

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**6,300,889**	7,177,734
Bills payable	**10,670,782**	9,962,649
	16,971,671	17,140,383

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:

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**10,857,822**	12,228,210
3 to 6 months	**5,904,387**	4,631,032
Over 6 months	**209,462**	281,141
	16,971,671	17,140,383

The Group's bills payable is secured by:

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

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

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

(iv) the pledge of certain of the Group's investment properties.

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

15. CONVERTIBLE BONDS

	Notes	2012 RMB'000	2011 RMB'000
Liability component:			
Old 2014 Convertible Bonds	*(i)*	–	137,567
New 2014 Convertible Bonds	*(ii)*	–	1,974,043
		–	2,111,610
Classified as current liabilities		–	(2,111,610)
Non-current liabilities		–	–

(i) RMB denominated 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 any time 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 any time 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.

The Old 2014 Convertible Bonds would 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 would 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 2011.

On 18 May 2012 and 27 June 2012, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB74,400,000 and RMB75,000,000, respectively, were redeemed with considerations of RMB77,257,000 and RMB77,924,000, respectively, in accordance with the terms and conditions of the Old 2014 Convertible Bonds. The bonds redeemed were cancelled.

15. **CONVERTIBLE BONDS (Continued)**

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

The Company allocated the consideration paid and any transaction costs for the redemption to the liability and equity components of the instrument at the dates of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components was consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible bonds were issued. The Company determined the fair value of the liability component at the dates of the redemption based on the valuations performed by Jones Lang LaSalle, an independent firm of professionally qualified valuers, using an equivalent market interest rate for a similar bond without a conversion option. The amount of gain on redemption related to the liability component amounting to RMB15,998,000 was recognised in profit or loss and the amount of consideration which related to the equity component of RMB30,195,000 was recognised in equity.

As at 31 December 2012, no Old 2014 Convertible Bonds were outstanding.

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for 2012 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 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 and 1 January 2012	**137,567**	**–**	**287,483**	**425,050**
Interest expenses	**3,417**	**–**	**–**	**3,417**
Redemption of bonds	**(140,984)**	**–**	**(30,195)**	**(171,179)**
At 31 December 2012	**–**	**–**	**257,288**	**257,288**

(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 any time 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.

15. CONVERTIBLE BONDS (Continued)

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

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the terms and conditions of the New 2014 Convertible Bonds, each bond would 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.

On 25 September 2012 and 31 December 2012, the New 2014 Convertible Bonds with an aggregate principal amount of RMB2,356,700,000 and RMB500,000, respectively, were redeemed with considerations of RMB2,442,343,000 and RMB518,000, respectively, in accordance with the terms and conditions of the New 2014 Convertible Bonds. The bonds redeemed were cancelled.

The Company allocated the consideration paid and any transaction costs for the redemption to the liability and equity components of the instrument at the dates of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components was consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible bonds were issued. The Company determined the fair value of the liability component at the dates of the redemption based on the valuations performed by Jones Lang LaSalle, an independent firm of professionally qualified valuers, using an equivalent market interest rate for a similar bond without a conversion option. The amount of gain on redemption related to the liability component amounting to RMB18,013,000 was recognised in profit or loss and the amount of consideration which related to the equity component of RMB376,387,000 was recognised in equity.

As at 31 December 2012, no New 2014 Convertible Bonds were outstanding.

The movements of the liability component and equity component of the New 2014 Convertible Bonds for 2012 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 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 and 1 January 2012	**1,974,043**	**688,021**	**2,662,064**
Interest expenses	**181,160**	**–**	**181,160**
Interest paid	**(70,716)**	**–**	**(70,716)**
Redemption of bonds	**(2,084,487)**	**(376,387)**	**(2,460,874)**
At 31 December 2012	**–**	**311,634**	**311,634**

16. EVENTS AFTER THE REPORTING PERIOD

Rearrangement of Certain Agreements

Reference is made to the announcement of the Company dated 5 March 2013. The Group terminated the Master Agreements, the 2012 Master Purchase Agreement and the 2012 Master Supply Agreement on 5 March 2013, respectively, with the original other parties of Agreement.

On the same day, the Group entered into the following agreements:

- Logistics services agreements for the provision of logistics services (including warehousing and delivery of general merchandise to end customers) by the Group, Beijing GOME Ruidong e-Commerce Co., Ltd. ("GOME Ruidong") and the Non-listed GOME Group to Kuba Technology (Beijing) Co., Ltd. ("Kuba") and GOME-on-line e-Commerce Co., Ltd. ("GOME-on-line") for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB150 million (equivalent to HK$184.95 million), RMB150 million (equivalent to HK$184.95 million) and RMB150 million (equivalent to HK$184.95 million), respectively;

- The after-sales services agreements for the provision of after-sales services by the Group, GOME Ruidong and the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015 to Kuba and GOME-on-line, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB150 million (equivalent to HK$184.95 million), RMB150 million (equivalent to HK$184.95 million) and RMB150 million (equivalent to HK$184.95 million), respectively;

- the master merchandise purchase agreement for the supply of general merchandise (including electrical appliances and consumer electronics products) by GOME Ruidong and the Non-listed GOME Group to the Group (including Kuba and GOME-on-line) for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB5 billion (equivalent to HK$6.17 billion), RMB6.5 billion (equivalent to HK$8.01 billion) and RMB8 billion (equivalent to HK$9.86 billion), respectively. Both the agreement and the annual caps are pending on the resolution of the special general meeting to be held on 2 April 2013; and

- the master merchandise supply agreement for the supply of general merchandise (including electrical appliances and consumer electronics products) by the Group to Kuba, GOME-on-line and the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2013, 2014 and 2015 not exceeding RMB5 billion (equivalent to HK$6.17 billion), RMB6.5 billion (equivalent to HK$8.01 billion) and RMB8 billion (equivalent to HK$9.86 billion), respectively. Both the agreement and the annual caps are pending on the resolution of the special general meeting to be held on 2 April 2013.

The above restructuring of contracts to cater to the operational needs of the Group did not change the calculation methods of respective prices charged by the contractual parties as agreed in the terminated contracts.

Save as disclosed above, the Group did not have any significant events taking place subsequent to 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2012 was a challenging year for the traditional retail industry in China. The transition of China's economy from a high growth phase to steady growth posed a pressure on the Group's performance. However, GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") remains confident of the enormous potentials in the home appliances retail market in China and have adopted a series of measures to maintain the Group's quality growth trajectory. The Group also approached its future role in meeting consumer needs with a new mindset, and developed a new strategic plan as well as launched a new brand image.

During the reporting period, the Group recorded sales revenue of approximately RMB47,867 million, compared to RMB59,821 million in the same period last year. Loss attributable to the owner of the parent company was approximately RMB597 million, compared to a profit of RMB1,840 million in the same period last year. Due to the Group's rationalization of its store network, the number of retail stores fell from 1,079 to 1,049 as at the end of 2012, following the opening of 107 new stores and closure of 137 underperforming stores.

In 2012, the Group launched a new consumer demand oriented multi-channel business model, under a move to evolve from the old operational model focusing on the management of different sites, suppliers and physical stores to a new one focusing on managing by products, customers and multiple channels instead. This 'B2C + Physical Stores' strategy will represent the way ahead for profitable growth in the coming years.

In 2012, the Group successfully established store network optimization business strategy with a focus on profitability for its first-tier markets, and upgraded its main stores to add depth to product categories and make the shopping environment more experiential. The Group expanded swiftly in its second-tier markets by opening satellite stores around flagship stores and redefining the product mix, building a comprehensive supply chain model to maximize its product diversity and competitiveness. As for its e-commerce business, GOME completed the back-end resources integration of its two platforms, namely the GOME online shopping mall and COO8 website, with the physical stores and rebranded the GOME online shopping mall to GOME-on-line in 2012. The back-end resources integration, covering the sharing of information, logistics, after-sales, procurement and the membership base, brings a brand new shopping experience to customers and enhances the profitability of the e-commerce business.

In 2012, the Group set up a supply chain proactively driven by differentiated products such as ODM and OEM, to add depth to its product lines while boosting consumer satisfaction. By partnering suppliers to develop a collaborative supply chain, the Group increased its efficiencies and lowered the incidence of stock-outs. By providing a platform for small home appliances and dealers, the Group has enhanced the product mix and brought a positive shopping experience to customers. These measures have helped the Group to strengthen its supply chain and increase the competitiveness of its products.

In terms of capital, the Group implemented various internal control measures to improve operational efficiency. During the year, the Group had fully redeemed the RMB denominated USD settled zero coupon convertible bonds due in 2014 ("Old 2014 Convertible Bonds") and the RMB denominated USD settled 3% coupon convertible bonds due in 2014 ("New 2014 Convertible Bonds") for a total of RMB2,598 million. The Group recorded an operating cash flow of approximately RMB4,137 million during the reporting period, with its cash and cash equivalents reaching approximately RMB6,731 million, representing a year-on-year growth of 12.73%.

FINANCIAL REVIEW

Revenue

During the reporting period, due to the complex and volatile business environment, the Group's revenue was approximately RMB47,867 million, down 19.98% from RMB59,821 million in 2011. The Group's weighted average sales area was approximately 3,701,000 sq.m. and the revenue per sq.m. was approximately RMB12,934, down 28.61% as compared to RMB18,117 in the corresponding period of 2011.

Aggregate sales of 724 comparable stores recorded a revenue of approximately RMB37,798 million this year, down 24.54% from RMB50,091 million in the corresponding period of 2011. Proportion of revenue from first-tier cities was decreasing. Sales revenue from the four regions of Shanghai, Beijing, Guangzhou and Shenzhen amounted to RMB19,935 million, accounting for 42% of the total revenue, down by 3 percentage points from 45% in last year.

Cost of sales and gross profit

Cost of sales of the Group was approximately RMB41,664 million in the reporting period, accounting for 87.04% of the total revenue, lower than the proportion of 87.37% in the corresponding period of 2011. Gross profit was approximately RMB6,203 million, down 17.92% from RMB7,557 million in the previous year. The gross profit margin was 12.96%, increased by 0.33 percentage points as compared to 12.63% 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.

Other income and gains

During the reporting period, the Group recorded other income and gains of approximately RMB1,541 million, representing a decrease of 53.33% over that of RMB3,302 million in 2011. The percentage of income from suppliers over sales revenue was 1.09%, lower than 3.48% for the previous year, which was mainly due to the Group increase in promotional activities for sales in the reporting period and resulted in reduction of the net income from the suppliers.

Summary of other income and gains:

	2012	2011
As a percentage of sales revenue:		
Income from suppliers, net	**1.09%**	3.48%
Management and purchasing service fees from the Non-listed GOME Group	**0.52%**	0.42%
Management fee for managing Dazhong Appliances	**–**	0.17%
Income from air-conditioner installation	**0.19%**	0.22%
Gross rental income	**0.48%**	0.38%
Government grants	**0.39%**	0.28%
Others	**0.55%**	0.57%
Total	**3.22%**	5.52%

Consolidated gross profit margin

During the reporting period, due to the decrease in net income from suppliers, the Group's consolidated gross profit margin was 16.18%, decreased by 1.97 percentage points as compared to 18.15% 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 RMB8,646 million, accounting for 18.06% of total sales revenue, up 3.79 percentage points as compared to 14.27% in 2011, which was mainly due to the decline in sales revenue (the denominator) during the year while rental costs increased.

Summary of operating expenses:

	2012	2011
As a percentage of sales revenue:		
Selling and distribution costs	**14.21%**	11.54%
Administrative expenses	**2.97%**	2.04%
Other expenses	**0.88%**	0.69%
Total	**18.06%**	14.27%

Selling and distribution costs

During the reporting period, the Group's total selling and distribution costs decreased from RMB6,904 million to approximately RMB6,804 million, down 1.45%. The percentage over revenue was 14.21%, up 2.67 percentage points as compared to 11.54% in the corresponding period of 2011. The increase of selling and distribution costs as a percentage over revenue was mainly due to the increase in rental expenses. Moreover, due to the decline in sales revenue, rental expenses as a percentage of sales revenue raised 1.8 percentage points from 4.38% in the corresponding period of last year to 6.18%.

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 increased. During the reporting period, the Group's administrative expenses were approximately RMB1,423 million, higher than that of RMB1,219 million in the corresponding period of 2011 by 16.74%. The percentage over revenue was 2.97%, increased by 0.93 percentage points as compared to 2.04% in the corresponding period of 2011. 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 RMB413 million in 2011 to approximately RMB419 million during the reporting period. The percentage over sales revenue was 0.88%, slightly increased as compared to 0.69% in 2011.

Loss/profit from operating activities

During the reporting period, as a result of the drop in revenue and increasing in operating expenses, the Group's loss from operating activities was approximately RMB902 million as compared to a profit of RMB2,323 million in 2011.

Net finance income

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 RMB214 million, as compared to a net finance income of RMB159 million in 2011.

Loss/profit before tax

During the reporting period, the Group's loss before tax was approximately RMB654 million, as compared with a profit of RMB2,475 million in 2011.

Income tax expense

During the reporting period, the Group's income tax expense decreased from RMB673 million in 2011 to approximately RMB156 million. The management considers the tax rate applied to the Group for the reporting period is reasonable.

Net loss/profit and loss/earnings per share

During the reporting period, the Group's loss attributable to owners of the parent company was approximately RMB597 million as compared with a profit of RMB1,840 million for the previous year. Basic loss per share were RMB0.035, as compared with earnings per share of RMB0.109 for the previous year.

Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents held by the Group were approximately RMB6,731 million, increased by 12.73% as compared with RMB5,971 million as at the end of 2011.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB7,385 million, down 23.27% as compared to RMB9,625 million in 2011. The inventory turnover period increased by 13 days from 62 days in 2011 to 75 days, which was mainly attributable to the decrease in cost of sales as a result of decrease in sales.

Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB2,543 million, down 31.80% from RMB3,729 million as at the end of 2011. Mainly due to the receivable balances created from exchange-old-for-new program as at the end of year 2011 have been settled during the year.

Trade and bills payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB16,972 million, down 0.98% from RMB17,140 million as at the end of 2011. Trade and bills payables turnover days were approximately 149 days, increased by 30 days as compared to 119 days for the previous year.

Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB783 million, representing a 9.06% decrease as compared with approximately RMB861 million in 2011. The capital expenditure during the year was mainly for the expenses of opening new stores, remodelling of stores and purchase of hardware equipment relating to ERP Project by the Group.

Cash flows

During the reporting period, the Group's net cash flows from operating activities amounted to approximately RMB4,137 million, substantially increased as compared with net cash flows of RMB383 million in 2011.

Net cash flows used in investing activities amounted to approximately RMB721 million, relatively stable as compared with RMB736 million in 2011.

Net cash flows used in financing activities amounted to approximately RMB2,666 million, while net cash inflows in 2011 was RMB107 million. The amount used in 2012 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. Currently, the Board anticipates that the dividend payout ratio will be maintained at not more than 30% of the Group's distributable profit generated during 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 RMB495 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 RMB61 million at the end of the reporting period.

Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. However, as Renminbi has been appreciating against HK dollars and US dollars, the Group 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 and bank loans.

As at 31 December 2012, the total borrowings of the Group, being interest-bearing bank loans, amounted to approximately RMB2,434 million. The interest-bearing bank loans will be repayable within one year. The Group's financing activities have been continuing supported by its bankers.

As at 31 December 2012, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to approximately RMB2,434 million over total equity amounting to approximately RMB14,754 million, increased to 16.50% from 13.27% as at 31 December 2011.

Charge on group assets

As at the end of 2012, the Group's bank acceptance credit and bills payable were secured by the Group's time deposits amounting to approximately RMB3,551 million and certain inventories with a carrying value of approximately RMB227 million and certain buildings and self-owned properties of the Group with a carrying value of approximately RMB1,556 million. The Group's bills payable amounted to approximately RMB10,671 million.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group employed a total of 38,081 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.

OUTLOOK AND PROSPECTS

Despite the challenging and slowing down macro-economic environment in 2012, the Group firmly believes that the home appliance industry in China still holds tremendous market potential. In response to the challenges and opportunities, GOME launched a new consumer demand oriented multi-channel business model in 2012. The new business model marks a focus on managing operations by products, customers and multiple channels. This "B2C + Physical Stores" model paves the way for profitable growth in the coming years.

In terms of strategic business planning, the Group will continue to focus on building a low-cost and highly efficient supply chain to share back-end functions, such as procurement, logistics, after-sales, information and membership system of online and offline businesses. With an integrated shopping platform for its online and offline businesses, the physical stores in first-and second-tier market, GOME-on-line and mobile commerce will rely on a new multi-channel business model to achieve sustainable growth, through a multi-product and multi-faceted marketing strategy.

Working from the basis of an integrated platform and a shared back-end infrastructure, the Group will continue to expand its product lines and customers' shopping experience. By re-organizing its logistics network, GOME can further improve its warehouse management and delivery service. In addition, the Group will be able to build a low-cost and highly efficient supply chain through the collaboration of its online and offline businesses. These measures will enable the Group to maximize profits through its multi-faceted marketing, multi-product management and multi-channel retailing, raising its enterprise value.

The Group developed the following major tactics for the next three years under the multi-channel retailing strategy to tap the immense market potential of the Chinese home appliances industry:

Strengthen and expand offline business

The bricks and mortar stores remain at the core of the Group's business. Globally, it still holds vital importance for future development in the retail industry. In the first-tier markets, the Group aims to strengthen store network and improve profitability through operational strategies such as stepping up closure of underperforming stores, improving the structure of its retail chain stores, expanding product lines, upgrading the store environment, adding more direct sales hires and refining individual store management. In the second-tier markets, as there is hugh potential for market consolidation. The Group is committed to promoting long-term growth and will continue to develop its store network in second-tier markets through opening satellite stores around flagship stores, and optimizing product mix to meet the different market needs. It will also build a comprehensive supply chain to improve the product range and product competiveness in the second-tier markets.

Promoting the growth of the online business

The e-commerce industry is distorted by aggressive price wars and hostile competitions, thus as the first generation e-commerce developer, the Group is committed to find a sustainable path towards profitability. E-commerce business will remain one of the key future focuses. The Group will coordinate the management of B2C and platform businesses and accelerate the development of new product categories. In addition, the Group had completed the back-end integration of both e-commerce platforms (GOME-on-line and COO8 website), which mainly covers the sharing of information system, merchandise, logistics, human resources, sales, finance and after-sales services. With the two integrated e-commerce platforms and the sharing of supply chain and back-end infrastructures with the offline business, the Group is aiming for a higher gross profit margin and tighter cost control. Meanwhile, the Group will continue to add depth to product categories, seek operational innovation, and refine its business management by carrying out comprehensive market analysis on internet users to enhance service quality and maintain profitable and sustainable growth of its e-commerce business.

Improving the supply chain

The Group will continue to shift from the management of suppliers to the management of products, with merchandising premised on customer demand. The Group will work with suppliers to develop joint marketing plans and has already entered into long-term strategic cooperation relationships with several suppliers. By sharing its ERP information platform with suppliers, the Group can share order information and inventory levels, and carry out reconciliation and clearing with suppliers. This will contribute to a higher inventory turnover rate and lower stock-out rate, raising suppliers' operating efficiency while reducing transaction costs. Different customer needs can be fulfilled with the support of integrated online and offline businesses and the integrated supply chain.

Expanding the product range

With the sharing of supply chain platform between online and offline businesses, the Group will expand its product categories and grow its product lines to meet diverse customer needs. Meanwhile, the Group will continue to step up its differentiated management approach by increasing the compatibility of its 3C products with those offered by telecommunication operators, and working with local and international suppliers to develop and offer more ODM and OEM products, as well as products for which it has exclusive selling rights.

Developing the logistics network

The Group will remain asset light in its development of logistics network with focuses on cost efficiency and flexibility and it will be a combination of "renting + third party collaboration + store delivery" model. The logistics and storage network that fully leverages on the ERP system will consist of central base and secondary centers which will support both online and offline businesses and will complete last mile delivery through store delivery, self-pickup and courier services.

COMPLIANCE WITH THE CODE ON 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 Hong Kong Stock Exchange subsequently introduced the new Corporate Governance Code (the "New CG Code") as set out in Appendix 14 to the Listing Rules with effect from 1 April 2012 in place of the CG Code. The Board responded promptly in early 2012 to review its corporate governance practices and took appropriate actions to ensure that the Company is in compliance with the CG Code as well as the New CG Code. The Board adopted the code provisions of the New CG Code as its corporate governance policy in January 2012. Since 2005, the Board has reviewed its corporate governance practices and ensured that the Company was in compliance with the CG Code and the New 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 period between 1 January and 31 March 2012 and the New CG Code for the period between 1 April and 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 2012.

DEVIATION

Under code provision A.6.7 of the New CG Code, independent executive directors and non-executive directors should attend general meetings. In 2012, the Company held an annual general meeting on 28 June 2012 and a special general meeting on 3 December 2012. Due to other business engagements, Mr. Ian Andrew Reynolds did not attend the abovementioned annual general meeting, and Mr. Zhu Jia, Ms. Wang Li Hong and Mr. Ng Wai Hung did not attend the abovementioned special general meeting. Due to conflicts with medical appointments, Mr. Sze Tsai Ping, Michael did not attend both of the abovementioned general meetings. The said absence from the general meetings constituted a deviation from code provision A.6.7 of the New CG Code.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Messrs. LEE Kong Wai, Conway, SZE Tsai Ping, Michael, CHAN Yuk Sang and NG Wai Hung all of whom are independent non-executive directors. The Audit Committee assists the Board in providing an independent review on the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee had reviewed the annual results of the Group for the year ended 31 December 2012 and the auditors' report thereon and submitted its reports to the Board.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10 came into effect on 1 January 2013 and establishes a single control model that applies to all entities including special purpose entities or structured entities. Having considered the power of the Group over Dazhong Appliances and the Group's exposure to variability of returns of Dazhong Appliances through the management agreement and other agreements including the loan agreement and the option agreement entered into between the Group and Beijing Zhansheng, the management has determined that these contractual rights held by the Group would be sufficient to give the Group control over Dazhong Appliances under IFRS 10. Accordingly, the financial statements of Dazhong Appliances will be consolidated into the financial statements of the Company upon the adoption of IFRS 10 on 1 January 2013.

PURCHASE, SALE AND REDEMPTION OF SHARES

On 18 May 2012 and 27 June 2012, the Old 2014 Convertible Bonds with an aggregate principal amounts of RMB74,400,000 and RMB75,000,000, respectively, were redeemed. The bonds redeemed were cancelled. As at 31 December 2012, no Old 2014 Convertible Bonds were outstanding.

On 25 September 2012 and 31 December 2012, the New 2014 Convertible Bonds with an aggregate principal amounts of RMB2,356,700,000 and RMB500,000, respectively, were redeemed. The bonds redeemed were cancelled. As at 31 December 2012, no New 2014 Convertible Bonds were outstanding.

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 2012.

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.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

This announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company (www.gome.com.hk). The 2012 Annual Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

APPRECIATION

On behalf of the Board, I wish to thank our shareholders and business partners for their support to the Group and to extend my appreciation to all staff members for their dedication and contribution throughout the period.

By Order of the Board
GOME Electrical Appliances Holding Limited
Zhang Da Zhong
Chairman

Hong Kong, 25 March 2013

As at the date of this announcement, the Board comprises Mr. Ng Kin Wah and Mr. Zou Xiao Chun as executive directors; Mr. Zhang Da Zhong, Mr. Zhu Jia, Ms. Wang Li Hong and Mr. Cheung Leong as non-executive directors; and Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang, Mr. Lee Kong Wai, Conway and Mr. Ng Wai Hung as independent non-executive directors.

* *For identification purpose only*