GOME
国美电器

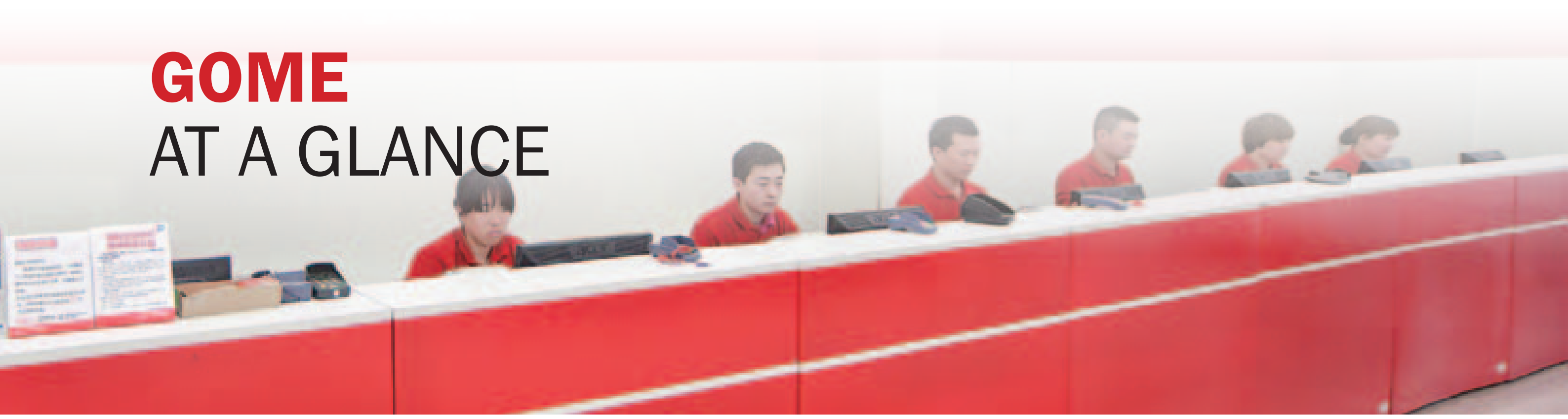
Annual Report 2012

Stock Code: 493


被信任是一种快乐
信
被信任是一种快乐

CONTENT

GOME
AT A GLANCE

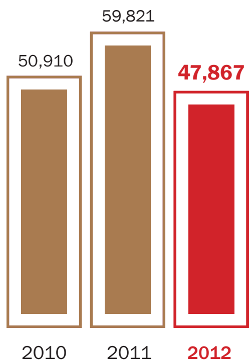


"GOME is a leading chain-store retailer of home appliances and consumer electronic products in China. We provide the industry's leading consumer experience, embracing the most extensive range of products, delivered at the most competitive prices. We offer our suppliers a channel platform that creates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

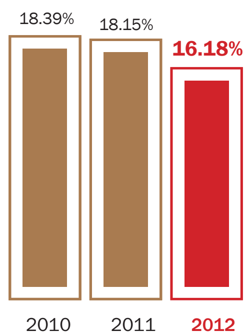
HIGHLIGHT

- 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

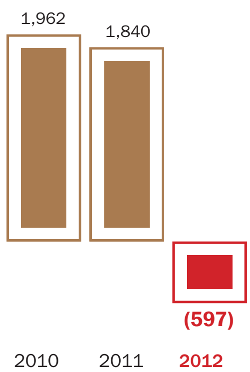
REVENUE
(RMB million)



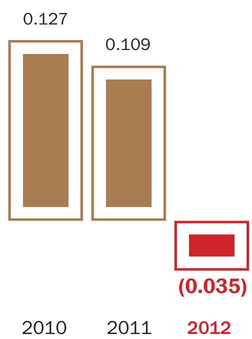
CONSOLIDATED GROSS PROFIT MARGIN*



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



BASIC (LOSS)/ EARNINGS PER SHARE
(RMB)



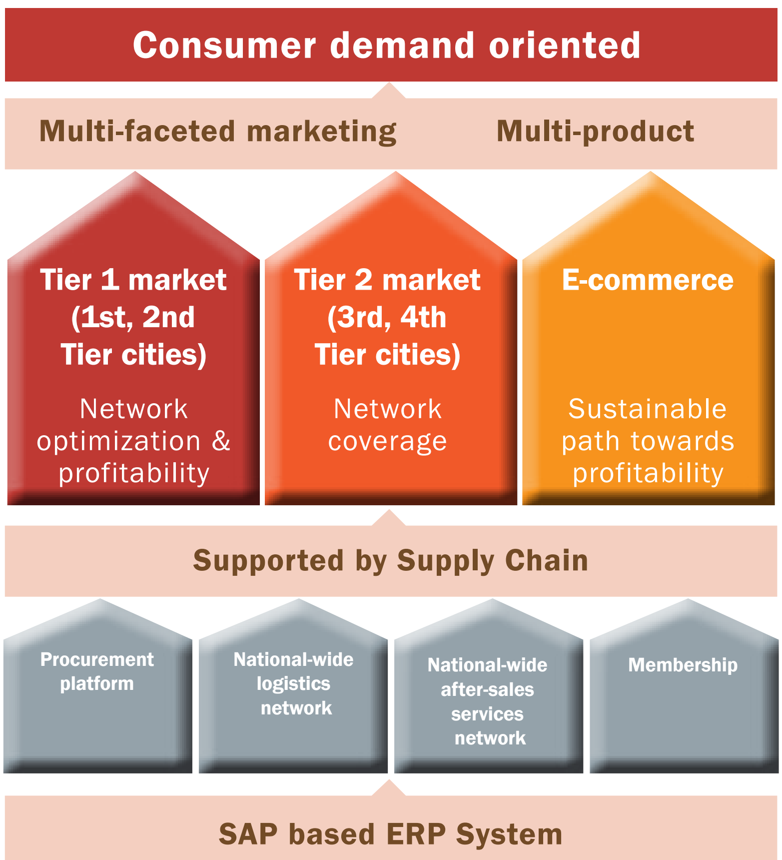
* Consolidated gross profit margin = (gross profit + other income and gains)/revenue

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December 2012 RMB'000	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
Revenue	**47,867,260**	59,820,789	50,910,145	42,667,572	45,889,257
(Loss)/profit attributable to owners of the parent	**(596,614)**	1,839,867	1,961,654	1,409,288	1,048,160
Total assets	**36,378,629**	37,227,468	36,217,262	35,763,180	27,495,104
Total liabilities	**21,624,316**	21,309,174	21,482,075	23,960,715	18,795,069
Non-controlling interest	**(394,766)**	(30,469)	–	–	140,201
Net assets	**14,754,313**	15,918,294	14,735,187	11,802,465	8,700,035

STRATEGIC LAYOUT

Multi-Channel Retailer:

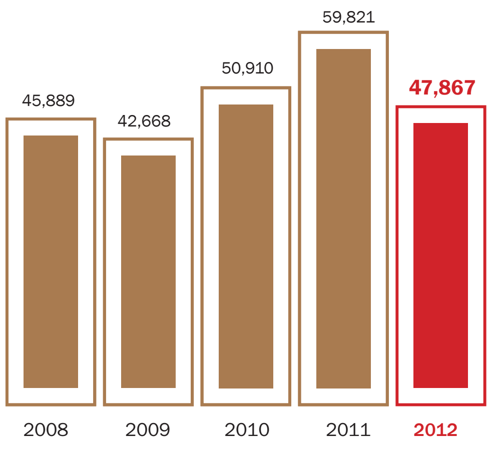


online/offline businesses with one integrated infrastructure

FINANCIAL AND OPERATIONAL HIGHLIGHTS

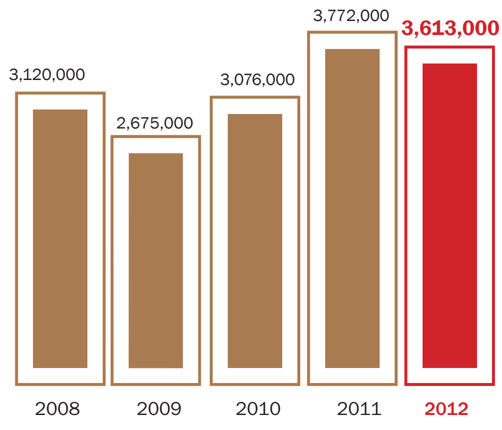
REVENUE

(RMB million)



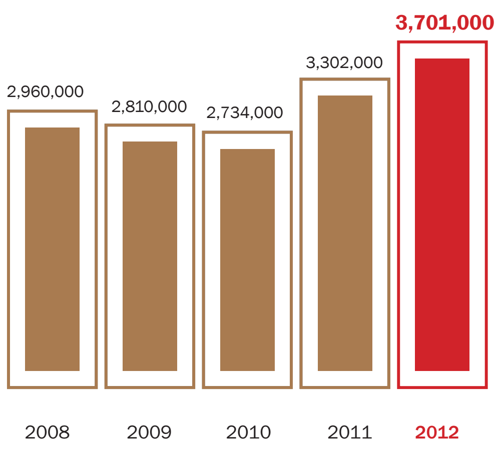
TOTAL SALES AREA AT YEAR END

(sq.m)

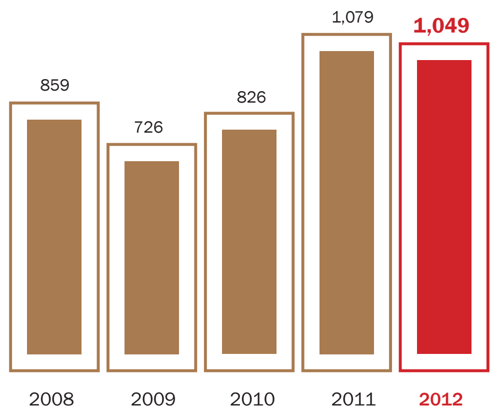


WEIGHTED AVERAGE SALES AREA

(sq.m)

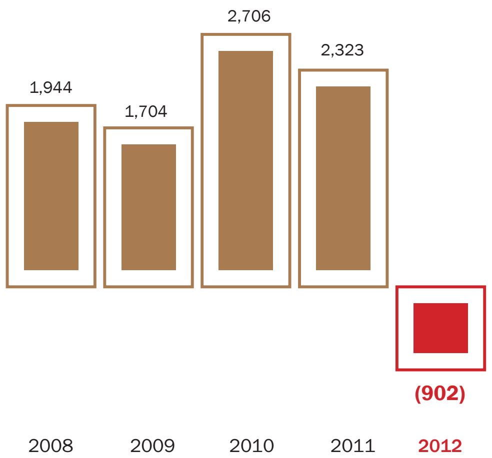


NUMBER OF STORES AT YEAR END

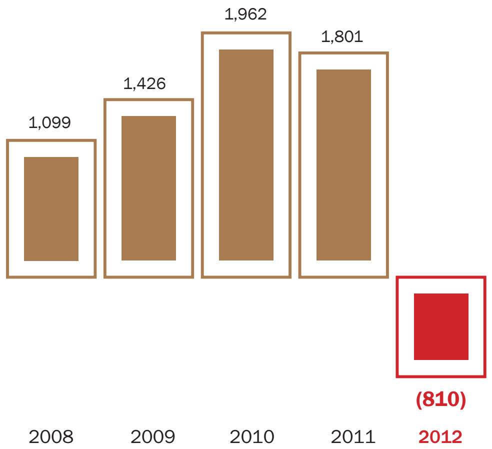


FINANCIAL AND OPERATIONAL HIGHLIGHTS

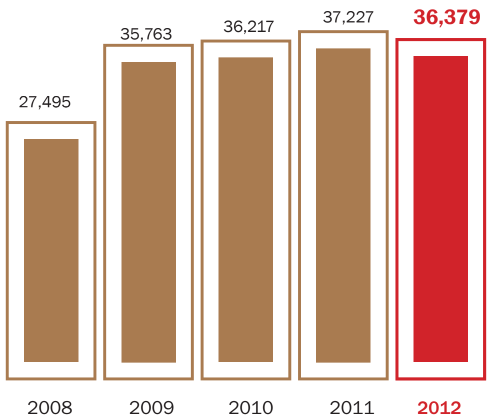
(LOSS)/PROFIT FROM OPERATING ACTIVITIES
(RMB million)



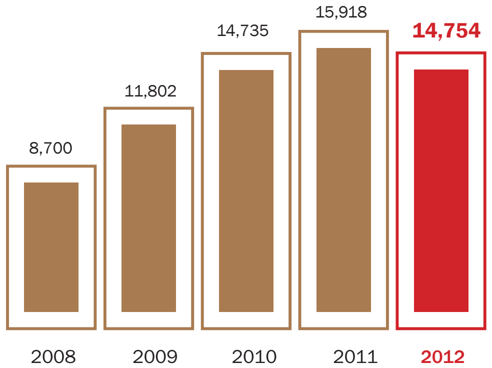
(LOSS)/PROFIT FOR THE YEAR
(RMB million)



TOTAL ASSETS
(RMB million)



NET ASSETS
(RMB million)




SAMSUNG
KONKA 康佳
E6

"Working from the basis of an integrated platform and a shared back-end infrastructure, GOME will continue to expand its product lines and improve 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."

CHAIRMAN'S STATEMENT

Dear Shareholders,

China's economy switched gear from a high-growth mode to a steady-growth phase, which affected consumers' expectations of future income and dented consumer confidence. This resulted in a significant slide in consumer demand. In 2012, the home appliance industry saw the first negative sales growth since 2007, which posed the biggest challenge to the Group since its inception.

In the first half of 2012, there were unfavorable external factors such as policy tightening, a sluggish property sector and the macro-economic slowdown, as well as the dire situation faced by the entire home appliance industry. In response to these challenges, the Group promptly adjusted its strategy and implemented measures focused on the three key objectives of "Sustaining Growth, Controlling Costs and Improving Profitability". Key measures included carrying out multi-channel development plan, changing our cost structure, optimizing our store network, revamping the staff incentive scheme, accelerating the integration of online and offline business, entrenching a greater degree of marketing autonomy, building an efficient supply chain and relying on differentiated market positioning. With the collective effort and perseverance of our staff across all levels, and the gradual recovery of the home appliance market in the second half of 2012, GOME put the worst behind it in the third quarter. In addition to rebound in physical store sales, GOME's e-commerce platform took off again following the successful back-end integration of the COO8 website and GOME-on-line in December 2012.

It is GOME's firm belief that the most valuable retail enterprises should be equally strong in both their online and offline businesses. During the market trough in 2012, GOME gradually refined its strategy into multi-channel development plan. The Group will continue to let customer demand set the strategic direction for its physical stores, focus on same-store sales growth in first-tier markets, and expand store networks in second-tier markets. For its e-commerce platform, GOME will actively expand channels to improve profitability by sharing back-end procurement. The Group will also expand its product line beyond home appliances through strategic cooperation with other online platforms, to become a profitable and integrated mainstream e-commerce platform.

We have full confidence in the future. Having emerged from the market trough, the home appliance market is now the beneficiary of urbanization and the Chinese government's policy to raise national income. With the Group's online and offline businesses providing a solid foundation for growth, we will seize every opportunity and persevere in 2013. We will roll out our flagship store strategy in the first-tier market, accelerate network expansion in the second-tier market, and hasten the development of our supply chain to reduce costs and increase operational efficiency. At the same time, we will continue to grow the e-commerce business to make it profitable sooner.

Our corporate theme for this year is "Trust is a pleasure, inspired to be trusted". Through our hard work, we will attract more customers and win the trust of our long-term partners, enabling GOME to achieve better results.

I would like to express my deepest respect and appreciation to all GOME employees for their unstinting efforts and contributions to the Group. I would also like to thank everyone in the community for supporting the Group's development. We have always endeavored to serve the interests of shareholders, employees and customers, while pursuing the long-term sustainable development of the Group. I have full confidence in leading GOME towards rapid and steady growth, to overcome all challenges and make GOME the most valuable and competitive multi-channel retailer.

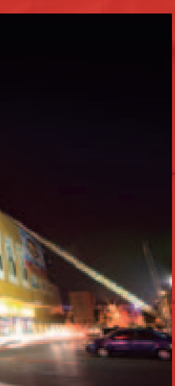
Zhang Da Zhong
Chairman


iPad 2
iPad 2
iPad 2
永乐生活电器
价格
保障
连锁卖场 漕宝旗舰店 NO.025

Gome
国美电器

Gome 国美电器

Yolo永乐



" The bricks and mortar stores remain at the core of GOME's business. Globally, it still holds vital importance for future development in the retail industry. "

MANAGEMENT DISCUSSION AND ANALYSIS

> 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%.

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 appliance 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 owners 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 model 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 a 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%.

MANAGEMENT
DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENT

The global economy faced downward pressure in 2012. The economic slowdown affecting developed countries reflects the slow economic recovery following the subprime crisis in 2008. Starting from 2013, factors contributing to the subdued global economy are expected to subside and promote global economic growth. Further, the U.S. real estate market is gradually stabilizing while the stability of the European debt crisis is improving in the short-term. The massive Japanese fiscal stimulus and further monetary easing will stimulate economic growth in the near future.

In China, the unfavourable external environment and the depressed overall demand arising from curbs on real estate and car purchases led to slower economic growth. A series of stimulus policies launched by the central government in 2009 contributed to the strong growth of China's home appliance industry in 2010 and 2011. The termination of consumption stimulus policies at the end of 2011, such as the "exchange-old-for-new" policy and "go rural" policy, resulted in consumption overdrafts. In respect to this global backdrop, the home appliance industry generally contracted across all levels in the first half of 2012, with sales down in major appliance categories.

Facing a deterioration in the macro-economic environment in the first half of the year, the Group's profitability was under severe strain from the slide in sales revenue, surge in rental costs and intensified competition in the e-commerce market in China. To cope with these adverse developments, the Group made internal adjustments to its business operations and undertook strategic transformation to boost individual store sales performance. The Group downsized inefficient stores and closed underperforming stores, to maximize the operating capacity of the store network and supply chain and to speed up the integration of physical stores and its e-commerce business in the first half of the year. In the second half of the year, consumption was boosted by the improving Chinese economy, a rebound in consumer confidence and the new round of subsidy program for energy-saving home appliances. These developments, coupled with the implementation of the above measures by the Group, led to an improvement in GOME's overall performance in the second half of 2012.

MARKET POTENTIAL FOR FUTURE DEVELOPMENT

Although the macro environment presented a number of challenges in 2012, the Group remains confident of the enormous potentials in the home appliance retail market in China, where GOME would have significant rooms of development.

The home appliance market in China is expected to reach RMB1.45 trillion in 2013 and reach RMB2 trillion by 2016, the growth is mostly driven by (1) a steady projected annual GDP growth rate, (2) demographic dividend brought by urbanization process, (3) an upgrade in consumption power and consumption structure as a result of income doubling plan, and (4) technological advancements and replacements in the home appliance sector which stimulate consumer demands.

In the first-tier market, the Group has higher market share in traditional appliances, small appliances and 3C category (including computer, digital products and telecommunication products) whereas in the second-tier market the Group's market share in these categories is relatively lower. The speed up in economic development in the second-tier market nowadays gives rise to higher income per capita and stronger consumption power, which means the demand for home appliances is becoming more diversified and sophisticated, coupled with significantly higher growth rate as compared to that in the first-tier market. The Group will continue to benefit in this particular environment.

In addition, the e-commerce business currently accounts for about 10% of the entire China's home appliance market, a number which is very low as compared to that of mature e-commerce market. The e-commerce business grew around 30% in 2012 over the previous year, with major product sales expanding beyond 3C products to include a more diversified product range comprising traditional home appliances. In response to the rapid development of e-commerce, the Group proposed a multi-channel strategy for the collaborative development of its online and offline businesses in 2012, which resulted in the benefits of operational efficiency and profitability becoming more visible. The e-commerce business can expand GOME's customer base while having its development supported by the procurement capabilities of physical stores. The Group will gradually achieve its long term development goal to become a multi-channel retailer with full integration of online and offline resources, lowering costs and increasing gross profit margin.

BUSINESS REVIEW

First-tier Market

Despite the Group's market leadership in the traditional and small home appliance categories of the first-tier market, tremendous growth potential remains in the 3C category. To capitalize on the market potential and the significant consumption demand, the Group will promote its growth in the first-tier market mainly by store network optimization with a focus on store profitability and close underperforming stores more quickly, to increase the productivity per unit store space.

To strengthen its store network in the first-tier market, the Group will review the store network coverage in the market, expedite upgrading works of its "Xin Huo Guan" near competitors' flagship stores and in core business districts, enhance store environment and customers' shopping experience, open stores in areas not covered by its retail network, as well as bring forward the launch of standard stores and specialized stores in suburbs under the first-tier market.

Emulating leading global home appliance chain stores, GOME carried out large-scale store renovations to keep pace with increasing customer expectations of their shopping experience and changes in consumer lifestyles, focusing more on leisure and entertainment. The "Xin Huo Guan" offer customers enjoyable shopping experience and a brand new lifestyle experience which became a template for first-rate home appliance chain stores nationwide. By the end of the reporting period, the Group had already opened 41 "Xin Huo Guan" stores in major cities. These stores, which offer stylish high-end products on a full scale, have successfully catered to the diverse needs of groups such as the young middle class and affluent customers, broadening the customer base and improving the Group's brand image.

In 2012, the Group upgraded its 3C product display models by renovating sales counters at the "Xin Huo Guan" stores and the "new-model stores" to enhance the consumer experience for its 3C products. The Group also refined its product management, increased inventory turnover for all products and responded swiftly to market changes. In addition, we expanded our accessories category, and beefed up sales for new and exclusive products. The Group also upgraded its daily replenishment system to improve product and store operational efficiency.

The Group further cooperated closely with telecommunication operators to improve its profitability. During the year, the Group launched the "89 Package" program with China Telecom, entered into national strategic cooperation agreements with China Mobile and expanded its customer base with China Unicom. Through the seamless cooperation with various telecommunication operators, the Group was able to reinforce customer loyalty, effectively raising 3C products' contribution to sales.

Second-tier Market

The second-tier market in China is fragmented with significant potential for consolidation. The Group is planning to adopt a cost-effective and easily-replicable strategy to extend its network coverage in the second-tier market.

Due to fragmented distribution in the second-tier market, the Group has a relatively low market share currently. GOME will grow its profitability in the second-tier market by opening flagship stores ringed by satellite stores to cover every district. Meanwhile, the Group will shut down stores with poor management, low profitability or negative margins and lease out obsolete spaces. While improving the shopping environment, we will also upgrade our store network to offer customers more convenience. With rising urbanization in China, there has been a gradual shift of industries from urban to rural regions. Real estate growth and the steady rise in rural income in China are increasing the penetration rate of electrical appliances and electronics products into the second-tier market, creating enormous business opportunities. Therefore, the Group will expedite the launch of new stores in the second-tier market on the back of its effective supply chains. The redesigning of the Group's product structure and logistic system, along with the upgrade of its operational abilities in the second-tier market, have built strong momentum for its rapid but steady development.

In view of the growing consumer demand in the second-tier market, GOME established separate network development teams in major regions and divisions of the market to build regional networks, and started an incentive fund for network development to promote rapid and healthy growth of its network in the market. The chain store development system is expected to launch new stores in the second-tier market based on considerations spanning location, rent, floor area and site layout. Positioning and area planning of the flagship stores will be benchmarked to flagship stores in the local market for the year, and the layout of satellite stores will follow the Group's standard guideline for store classification.

A specialized operation department of the Group is responsible for second-tier store operations. Strategic cooperation arrangements were entered into by the Group with key suppliers or brands to develop the second-tier market with joint efforts. For those suppliers who have the ability to manage and operate effectively in the local areas, the Group would tend to be more relied on suppliers' resources such as sales promoters to improve the quality of services and increase sales per staff in its second-tier stores.

In addition, with the inclusion of 561 Non-listed GOME Group stores and 59 Beijing Dazhong Home Appliances Retail Co. Ltd. ("Dazhong Appliances") stores managed and operated by the Group, the total number of stores operated by the Group and the Non-listed GOME Group would have reached 1,669 by the end of 2012, spanning 424 large- and medium-sized cities nationwide.

E-commerce

In 2012, the size of China's e-commerce retail market exceeded RMB1 trillion. It is expected that China's e-commerce retail market will continue to grow rapidly over the next few years. Currently, the combined share of the first two home appliance retailers in China in the entire e-commerce retail market remains insignificant, and is dwarfed by the equivalent in Europe, the United States, Japan and other mature markets for home appliances. China's home appliance retail market still enjoys promising prospects.

China's e-commerce market is still in the developing stage. The prevalent market defects include high costs, low gross profit, and continuing losses. GOME is now actively expanding the channels of its e-commerce platform. By sharing the procurement between its online and offline businesses, GOME enjoys economies of scale which enables it to improve its gross profit and score an advantage over other competing pure online platforms. With the sharing of logistics, after-sales and information platforms, the Group has achieved a low-cost advantage under the integration of its online and offline businesses.

The equity restructuring of 新鋭美電子商務有限公司 (Xinruimei E-Commerce Co., Ltd.) ("Xinruimei") and 庫巴科技(北京)有限公司 (Kuba Technology (Beijing) Co., Ltd.) was completed in August 2012, achieving the sharing of integrated management and resources. After that, the GOME online shopping mall, which was operating by Xinruimei, was officially rebranded to GOME-on-line. By completing the integration of information systems, logistics warehousing and distribution, along with large-scale purchasing, GOME has created a low-cost, highly-efficient and profitable business model.

With the development of the Group's e-commerce platform, online product categories have expanded to include a variety of general merchandise. Since most of the merchandise are daily necessities (such as baby products, cosmetics, footwear, etc.), the domestic demand for such merchandise is sustainable and huge on account of China's population. Therefore, it is expected that the change in the product structure and nature will significantly increase growth of the Group's e-commerce platform.

During the reporting period, the Group achieved a year-on-year online sales growth (including value added tax) of 119.1% and its gross profit margin increased on the back of a stronger product mix on the e-commerce platform.

THE NATIONWIDE RETAIL NETWORK OF THE GROUP

As at 31 December 2012

"With the inclusion of the 561 Non-listed GOME Group stores and 59 Dazhong Appliances stores managed by the Group, the total number of stores operating by the Group and the Non-listed GOME Group would reach 1,669 and spanned 424 large- and medium-sized cities."

Development of Network

	Group total	GOME	China Paradise	CellStar
Flagship stores	218	173	45	–
Standard stores	391	336	55	–
Specialized stores	440	333	61	46
Total	1,049	842	161	46
Among them:				
First-tier markets	662	502	119	41
Second-tier markets	387	340	42	5
Net decrease in store number	(30)	(24)	(6)	–
Number of stores opened	107	86	14	7
Among them:				
First-tier markets	57	40	10	7
Second-tier markets	50	46	4	–
Number of cities accessed	247	209	58	6
Among them:				
First-tier cities	26	20	9	1
Second-tier cities	221	189	49	5

List of stores

Region	Flagship stores	Standard stores	Specialized stores	Total
Beijing	21	25	8	54
Shanghai	38	20	18	76
Tianjin	13	18	10	41
Chengdu	12	29	18	59
Chongqing	8	22	16	46
Xian	18	16	56	90
Shenyang	9	13	15	37
Qingdao	8	15	15	38
Jinan	6	7	18	31
Shenzhen	20	42	28	90
Guangzhou	19	45	65	129
Wuhan	7	19	18	44
Kunming	4	12	13	29
Fuzhou	7	15	19	41
Xiamen	4	15	20	39
Henan	4	20	17	41
Nanjing	2	17	20	39
Wuxi	1	5	8	14
Changzhou	3	8	5	16
Suzhou	4	6	12	22
Hefei	2	11	6	19
Xuzhou	1	3	12	16
Tangshan	2	–	7	9
Lanzhou	3	6	8	17
Wenzhou	2	2	8	12
Total	**218**	**391**	**440**	**1,049**

Supply Chain

In shifting from management by suppliers to management by products, with merchandising premised on customer demand, the Group works with suppliers to develop joint marketing plans and has already entered into long-term strategic cooperation arrangements with several suppliers such as Haier, Samsung and Siemens. By sharing its Enterprise Resources Planning system ("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. Under the multi-channel business model and with the support of the integrated supply chain, the Group's online and offline businesses will share the back-end infrastructure comprising purchasing, logistics, aftersales and information, to achieve standard pricing and meet different customer needs.

Through offering ODM and OEM products, as well as products for which it has exclusive selling rights, the Group will be able to strengthen the control and management capabilities of its proactive supply chain. This will enable it to expand its product mix and achieve a higher gross profit margin. The Group also set up a procurement department for imported goods comprising high-end, new and exotic products, to expand its product categories.

On the other hand, the Group developed joint marketing plans with suppliers under its major sales and marketing strategies. For mid to high-end products, the Group will operate by following supplier contract terms. For lower-end products, the Group will negotiate to achieve one-step purchase price, carry out marketing promotions for individual products as well as offer price discounts. The Group will maximize its market share by upgrading its collaborative supply chain to increase operating efficiency and lower costs.

In addition, the Group is also actively developing online platforms for small home appliances and electronic kitchenware in the first-tier cities such as Beijing and Shanghai. The Group will continue to invest in information system development and allow the suppliers to complete ordering, inventory checks, reconciliation and clearing through the system. The Group will also promote its profit margin guaranteed sales policy to maximize sales revenue and gross profit.

During the period under review, the Group's top five suppliers (by brand) accounted for approximately 36.19% of total procurement, remained stable as compared to 33.81% for the same period in 2011.

Information System Construction

During the year, the Group continued to expedite the construction of the ERP system, which efficiently reduces costs through the Enterprise Cooperation Platform ("ECP") and Information Technology Service Management ("ITSM"). With the newly established ECP, suppliers' product information will be more complete and accurate, while contract execution and order placements can be computerized with greater visibility, and ease of control. The sales data analysis it generates can also promote joint marketing and resources sharing. In addition, The ECP can encourage suppliers to customize their products, and speed up the processing of defective and slow-moving inventory items, as well as the stock replenishment of fast-selling products. The construction of ITSM enables better tracking of the quality and efficiency of individual tasks, providing assessment metrics for the operation and administrative services.

In 2012, the integration of the ERP system was basically completed. The speedy establishment of the information system will gradually enhance the Group's operational efficiency.

Rental of stores

By the end of the reporting period, 1,014 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 6.18% of the revenue, up 1.8 percentage points as compared to 4.38% in the corresponding period in 2011. By sub-letting and terminating existing rental agreements during the year, the Group was able to optimize the floor areas and control the rental expenses. Of the 1,014 leased stores of the Group, 94, 81 and 124 lease agreements will be expiring in 2013, 2014 and 2015, respectively.

By the end of the reporting period, the 35 self-owned stores accounted for approximately 5.8% 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.

Customer and After-sales Services Systems

(1) Logistics

During the reporting period, the Group continued to upgrade the distribution centers and warehouse network that support its retail stores, and built regional logistics centers with larger geographic coverage in key commercial areas. Based on the ERP system launched in 2011, the Group continued upgrading the information system in 2012 to manage information such as inventory movement, warehousing, delivery, etc., precisely from suppliers to end customers, with a view to achieving comprehensive planning and control of products going through the logistics system, and to raising overall logistics management effectiveness.

In tandem with the development of the e-commerce business, the Group integrated the logistics function of GOME-on-line and the COO8 website with offline stores to enable sharing of warehouse and delivery services for traditional home appliances between online and offline businesses. This will improve the geographical coverage and delivery timeliness of the online business and to synchronize the service standard with those for offline business.

Riding on our strategy to rapidly build a position of strength in second-tier markets, the Group opened 18 regional warehouses in the second-tier markets. To increase inventory turnover rate, we shortened distribution distance, reduced logistics costs and obsolete stock rate, while improving the responsiveness of our supply chain in the second-tier markets.

As at the end of the reporting period, the Group had 125 delivery centers, including 33 in first-tier markets and 92 in second-tier markets. These delivery centers occupied a total area of about 670,000 sq. m.

(2) After-sales Services

During the reporting period, the Group continued to improve its after-sales service network and strengthened the after-sales management by setting up a specialized after-sales service company. By putting big efforts in promoting our self-run installation and maintenance business, the utilization rate of our self-run after-sales service has reached 21%, resulted in a significant growth in revenue that turned traditional after-sales service from a cost center to a profit center. With the help of the refinement of the after-sales service company, customer satisfaction rate outperformed our target and reached 93.01% during the year. Besides, the extensive service network improved the response rate to customer requests, delivered high-quality services to the customers in all stages of pre-sale, sales and after-sales, resulted in substantial improvement in customers' satisfaction levels as well as the Group's reputation and brand image.

(3) Membership service

During the reporting period, the Group improved its membership services in various aspects. By upgrading exclusive member privileges including "reward points for cash coupons", "reward points lucky draw" and "charity donation for members", the Group was able to increase the loyalty and overall satisfaction of its members. The Group also established a database for premier members, and provided them with tailor-made customer services in order to strengthen the customer relationships and customer loyalties.

(4) Extended warranty service

The Group has introduced extended warranty services which won widespread support and recognition from consumers. From 1 January 2012, GOME officially started selling its proprietary extended warranty products, which are backed by the specialized after-sale services company of the Group. This will increase the competitiveness of modern home appliance retailers, and also help manufacturers resolve warranty related issues.

(5) Call centers

During the reporting period, to cater for consumer needs, the Group has carried out comprehensive upgrade on the call centers services system. On top of traditional services such as telephone, audio, e-mail, facsimile and short messages, the Group progressively established multi-channel multimedia access platform for the customers. By providing "zero-distance services", customer experiences were enhanced and satisfaction rate was increased to 98.97%.

Corporate Governance

The Group strives for continuous improvements to its corporate governance. The board of directors of the Company ("Board") consists of two executive directors, four non-executive directors and four independent non-executive directors. This Board structure complies with the requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that at least one-third of the board of directors should be independent directors, as well as ensures the independence of the Board. This way, shareholder opinions are thoroughly deliberated by the Board in a constructive manner before reaching consensus.

Separately, the Group has adopted the code provisions of the new Corporate Governance Code under the

Listing Rules which came into effect on 1 April 2012 as its Corporate Governance Policy. GOME has implemented all the requirements under the code provisions of the Corporate Governance Code to further enhance the Group's corporate governance.

During the year, the Group was committed to strengthening various internal control measures to ensure orderly daily operations and to prevent employees from exploiting system loopholes to commit illegal activity or violate the Group's regulations. The Group takes strict measures to counter unethical and illegal activities such as fraudulent personal gain, embezzlement, malpractice, misconduct and unauthorized partnership and acquiescence. At its distribution center and stores, the Group carries out sample audits on inventory on a daily, weekly and monthly basis by its internal audit teams. The strengthened supervision at all levels has improved the quality of the Group's internal management.

Corporate Culture

The Group understands that "corporate culture is the essence of corporate development". Over more than two decades of corporate development, the Group has put unstinting effort into building a corporate culture consistent with that of a leading home appliance company, becoming an industry role model in China.

In October 2012, GOME launched its corporate culture and business philosophy enhancement program. By the end of the year, the Group unveiled a brand philosophy and corporate culture anchored by "Trust", which is exemplified by its new brand slogan of "Trust is a pleasure, inspired to be trusted". GOME's corporate culture of "Trust" is defined by management based on mutual trust, recognizing talent, the judicious delegation of authority and a meritocratic workplace. This will encourage employees to understand and embrace the value of "Trust" as well as exemplify it in their trustworthy conduct. On its relationships with external parties, the Group will observe the spirit of its agreement and build mutually beneficial relationships with suppliers and partners, on the premise of value creation. We will help customers lead a quality life and earn their trust, maintaining our lead in the industry to become a reputable world-class retail enterprise.

Human Resources

The Group believes that employees are the most important assets of an enterprise, and therefore places strong emphasis on managing and developing its talent. It has in place a set of comprehensive staff evaluation criteria to promote innovation and career development, and to help employees to achieve their maximum potential while creating value for customers.

At the start of 2012, the Group separated the training division from the human resources center to become a first class management unit capable of operating and developing independently, which introduced a series of targeted talent development programs. Targeting the Group's senior management, the training division set up mini Executive Development Program ("EDP") as well as a succession planning program. GOME also organized management lectures for middle managers, and launched a core operations team training program, a talent retention program and a skills upgrading program for its operations staff. Through these training programs, employees at all levels are given clear career development paths in the company, so that they can become well-rounded professionals to support the Group's rapid business development.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

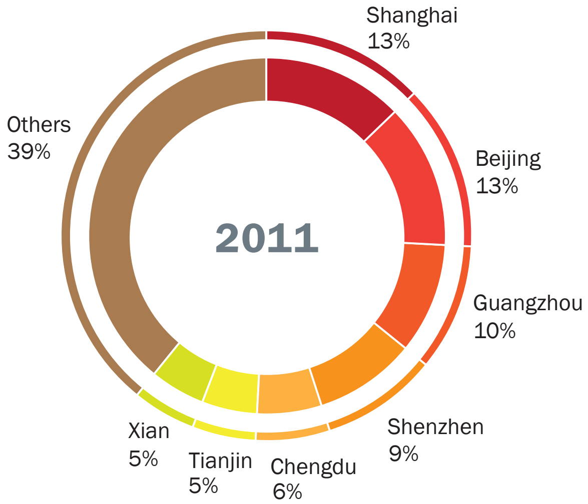
During the reporting period, due to the complex and volatile business environment, the Group's revenue was approximately RMB47,867 million, down 19.98% from RMB59,821 million in 2011. The Group's weighted average sales area was approximately 3,701,000 sq.m. and the revenue per sq.m. was approximately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

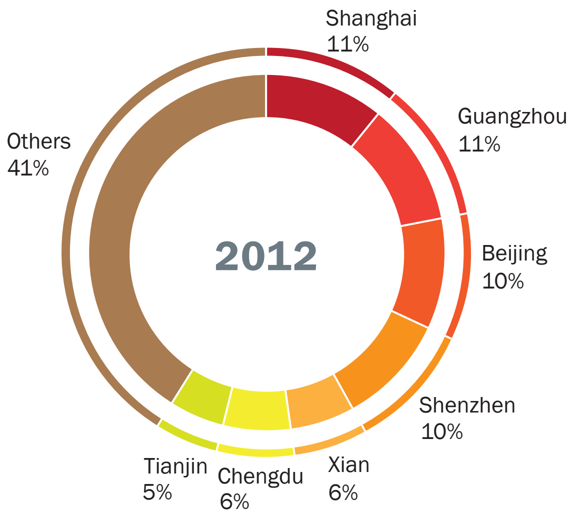
Aggregate sales of 724 comparable stores recorded a revenue of approximately RMB37,798 million this year, down 24.54% from RMB50,091 million in the corresponding period of 2011. Proportion of revenue from first-tier cities was decreasing. Sales revenue from the four regions of Shanghai, Beijing, Guangzhou 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

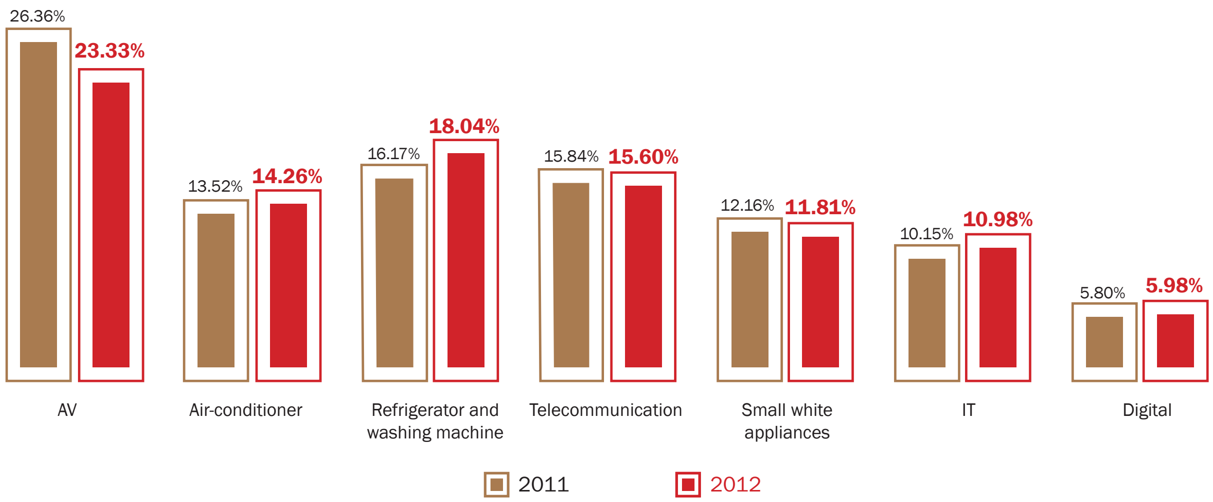
Cost of sales of the Group was approximately RMB41,664 million in the reporting period, accounting for 87.04% of the total revenue, lower than the proportion of 87.37% in the corresponding period of 2011. Gross profit was approximately RMB6,203 million, down 17.92% from RMB7,557 million in the previous 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.

SALES REVENUE OF THE GROUP BY REGION:

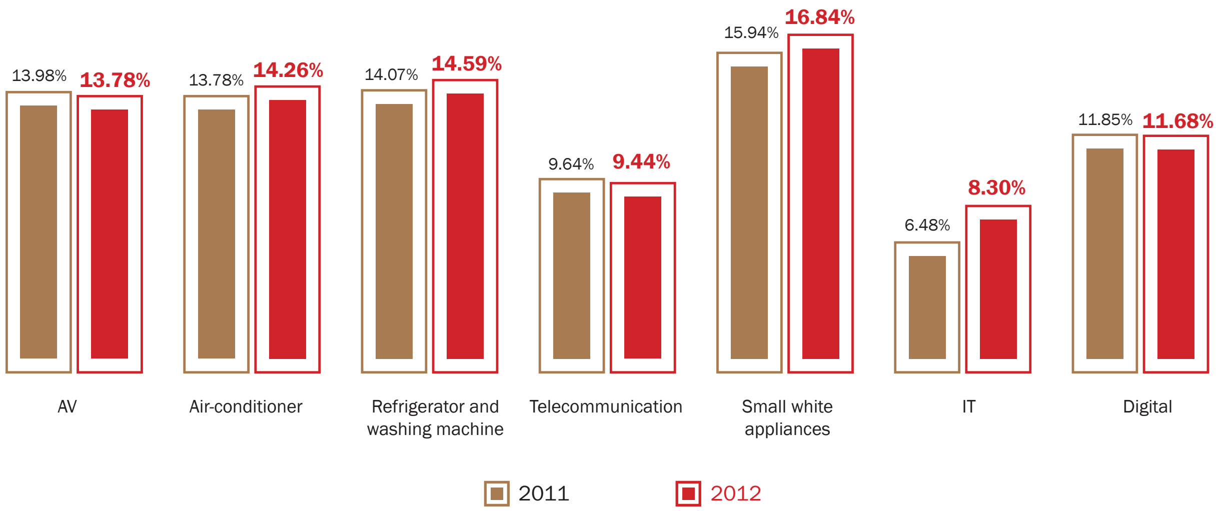




PROPORTION OF REVENUE FROM EACH PRODUCT CATEGORY OVER TOTAL REVENUE:



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



Other income and gains

During the reporting period, the Group recorded other income and gains of approximately 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%.

Summary of selling and distribution costs:

	2012	2011
As a percentage of sales revenue:		
Rental	6.18%	4.38%
Salaries	3.16%	2.94%
Utility charges	0.88%	0.68%
Advertising expenses	1.81%	1.51%
Delivery expenses	0.73%	0.68%
Others	1.45%	1.35%
Total	14.21%	11.54%

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.

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 improve 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 appliance 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 competitiveness 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.

MANAGEMENT
DISCUSSION AND ANALYSIS

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.

HIGHLIGHTS
OF THE YEAR

DECEMBER 2012

- At the launch of future development strategy and new brand ambassador in Beijing, GOME officially announced its corporate strategic plan for 2013-2015 as well as its brand concept and corporate culture with "Trust" as the core belief. According to GOME, its future corporate development strategy, brand concept and corporate culture will aim to satisfy the needs of consumers and customers with focus placed on an all-win principle to promote the coordinated development of online and offline businesses.
- GOME Group officially announced that it has integrated its two e-commerce platforms, the GOME online shopping mall (gome.com.cn) and the COO8 website (COO8.com), to achieve a consolidated management and resource sharing of the back-end systems. After the integration, the GOME online shopping mall will be renamed as "GOME-on-line", which will leverage on the brand strength gained in the offline business over the years to fully integrate the online and offline resources. Meanwhile, with the strong back-end support from GOME-on-line, COO8.com will focus on the development of a comprehensive e-commerce platform operating independently under a separate brand and website.

NOVEMBER 2012

- At the 14th China Chain Store Industry Conference organized by the China Home Appliance Chain Store Association, GOME was given numerous awards including the "2012 China Retail Innovation Award", "Gold Medal Manager" and "Top Ten Gold Medal Manager" awards with the "Retail Innovation Award" won for the third consecutive year.

SEPTEMBER 2012

- In the "Top List of 2012 China's Energy-saving Products Business Leaders" released by the Energy Label Centre of the China National Institute of Standardization, GOME Group had a total of 15 retail stores including Guangzhou Gome Victoria Shop, Shanghai Paradise Zhongshan Park Shop, Beijing Dazhong Zhongta Shop and Black Swan Daowai Shop selected for the "2012 China's Energy Efficient Products Retailer Leaders", which is the highest number among the retail industry.
- In the "Top 500 List of 2012 Asia-Pacific Retailers" released by Asia Retail Magazine, GOME was given the "Top 500 List of Asia-Pacific Retailers – Gold Award in China" and "Best of the Best Retailers Award", the most honourable award for retail enterprises in Asia-Pacific.
- In the "2012 (18th) China's Top 100 Most Valuable Brand" presented in London, England, valued at RMB66.13 billion, GOME was the only Chinese home appliance retailer in the list and top of the brand value list for China's retail industry for the sixth consecutive year.

HIGHLIGHTS
OF THE YEAR

- The 7th Asia Brand Ceremony was held in Hong Kong with the theme of "Brand Success in the Future". As the leading chain retailer of home appliances and consumer electronic products in China, GOME was the only home appliance chain retailer selected and it was also given the "Ten Most Trustworthy Brand Award in Asia (Industry)".
- In the list of "2012 China's Top 500 Enterprises" jointly announced by China Enterprises Association and China Entrepreneur Association, GOME ranked 49th and topped the list of home appliance chain retail enterprises.

JULY 2012

- In the "2011-2012 (7th) China's Best Customer Service Award" jointly organized by China Association of Trade in Services and China Information Association, GOME won the "Best Service Management Award in China".

JUNE 2012

- At the press conference of "Forming Strategic Alliance with GOME for Energy Saving in China" held in Beijing, GOME (including the Group and the Non-listed GOME Group) signed procurement contract amounting to RMB18 billion for energy-saving home appliances with suppliers including Siemens, Skyworth, Changhong, Konka, TCL, Sony, Sanyo, Electrolux, A.O. Smith, etc; in addition to the contract amounting to RMB20 billion for energy-saving home appliances with Haier, Hisense and Samsung at the Beijing Trade Fair on 1st June, making the total procurement capacity of energy-saving products at RMB38 billion. Meanwhile, GOME also joined forces with a hundred suppliers to form an alliance to promote energy-saving home appliances in China.

MAY 2012

- In response to the call on energy-saving by the PRC government, GOME took the lead to promote low-carbon consumption. It teamed up with Haier Group to launch an energy-saving consumer month at the 1st China (Beijing) International Trade Fair (referred to as the Beijing Trade Fair) and signed purchasing orders totaling RMB10 billion.
- GOME and China National Institute of Standardization, a national non-profit research institution engaging in standardization research, signed a leading enterprise strategic cooperation agreement on China's energy-efficient products, which aims to promote the implementation of energy efficiency standards and labeling requirements on energy-saving consumer products, leverage on the advantages of both research organizations and large retail terminal channels, promote the purchases and sales of energy-efficient home appliances, raise the public's awareness of energy conservation, and foster an energy-saving and low-emission concept in the areas of production and consumption in China's home appliance industry.
- The China Chain Store & Franchise Association announced the list of "China Top 100 Chain Retailers", which GOME ranked first among China's home appliance chain retail enterprises.

APRIL 2012

- The China Chain Store & Franchise Association ("CCFA") announced the list of "Top 100 Low-carbon Model Shops". Six shops under GOME Group, namely Beijing Gome Madian Xin Huo Guan (New Life Plaza),

Beijing Gome North Taiping Zhuang Shop, Guangzhou Gome Gangding Xin Huo Guan, Shanghai Paradise Caobao Xin Huo Guan, Dazhong Appliances Zhongta Xin Huo Guan and Dazhong Appliances Wangjing International Commerce Centre Shop, were named "Low-carbon Model Shops" by virtue of their outstanding performance in areas such as low-carbon operations, sales of low-carbon products and staff training. GOME had most shops in the list among China's home appliance retail enterprises.

- China Chain Store & Franchise Association announced the list of "China Top 100 Chain Retailers", in which GOME ranked first among China's home appliance retail enterprises with a sales turnover of RMB110 billion and a total of 1,737 stores in 2011.
- GOME and China UnionPay jointly launched a nationwide "Consumer Promotion Month" with special offers on electrical appliances, during which period UnionPay selected cardholders enjoyed subsidies for buying electrical appliances, cash rebate and price discount on exclusive models at Gome, China Paradise and Dazhong stores.
- GOME and Qualcomm, a world leader in 3G and next-generation wireless communication technologies and mobile processor, entered into a strategic cooperation agreement, pursuant to which both parties will ally with China's top three telecommunication operators and world-renowned manufacturers to launch in-depth cooperation in areas including unified standardization of intelligent mobile terminal equipment and forward-looking trend analysis.

MARCH 2012

- The 9th GOME employee annual meeting was convened in Beijing with the theme of "Integrity, Responsibility and Value Creation".
- GOME online shopping mall (www.gome.com.cn) was the first e-commerce operator to be named the "Quality and Credit Assured Unit" by China Consumer Protection Foundation on 15th March.
- GOME online shopping mall was named the "12315 Outstanding Unit on Solving Consumer Disputes" by Haidian Branch of the Beijing Municipal Administration on 15th March.

JANUARY 2012

- Millward Brown, a joint venture engaging in marketing research under WPP, the world leader in marketing communications, issued the "2011 BrandZ Top 50 Most Valuable Chinese Brands" in Beijing, with China's renowned brands including GOME selected in the list. GOME's forward-looking strategy of utilizing social media in the Internet era also put it in China's Top Ten "Leading Brands in Social Media".
- GOME was named the "Quality Unit on Consumers' Interests Protection" by China Consumer Protection Foundation.
- Deloitte Touche Tohmatsu Limited in the United States and STORES Media jointly issued the "2012 Global Retail Force" report and published the rankings of the world's 250 retail enterprises, among which GOME ranked 75th and it was the top home appliance retailer in China for the third consecutive year.

"As the first generation e-commerce developer, GOME 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."

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

CHAIRMAN

Mr. ZHANG Da Zhong

Mr. ZHANG Da Zhong, aged 64, 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, a member of the standing committee for both the 9th and 10th Chinese People's Political Consultative Conference of Beijing and a member of the standing committee of the 13th Beijing People's Congress. Mr. Zhang is currently the deputy chairman of the Beijing Commerce Federation (北京市商會).

EXECUTIVE DIRECTORS

Mr. NG Kin Wah

Mr. NG Kin Wah, aged 53, 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

Mr. ZOU Xiao Chun, aged 43, 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) and since May 2012, has been re-appointed as a director of such company. 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).

DIRECTORS
AND SENIOR MANAGEMENT PROFILE

NON-EXECUTIVE DIRECTORS

Mr. ZHU Jia

Ms. WANG Li Hong

Mr. ZHU Jia, aged 50, 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, a non-executive director of Clear Media Limited since August 2011 and also the chairman of the board of such company between August 2011 and December 2012 (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.

Ms. WANG Li Hong, aged 45, 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. CHEUNG Leong

Mr. SZE Tsai Ping, Michael

Mr. CHEUNG Leong, aged 41, has been a non-executive Director of the Company since June 2012. Mr. Cheung is currently an operating partner with Portfolio Company Advisors Asia, LLC, an affiliate of Bain Capital Group. Prior to joining the Bain Capital in 2008, Mr. Cheung was a managing director of global sourcing and supply chain of Esquel Group. He was a project leader with the Boston Consulting Group prior to his employment with the Esquel Group. Mr. Cheung received a Master of Business Administration degree from the Harvard Business School and a Bachelor of Business Administration degree from the Chinese University of Hong Kong. Mr. Cheung currently serves on the Court and Council of the Lingnan University and is a member of the advisory committee for the Quality Migrant Admission Scheme of the Hong Kong Special Administrative Region.

Mr. SZE Tsai Ping, **Michael**, age 67, 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 from the University of Hong Kong. He was a former member of the Securities and Futures Appeals Tribunal. He was also a former council member and member of the Main Board Listing Committee of the Hong Kong Stock Exchange. Mr. Sze is an independent non-executive director of Greentown China Holdings Limited since 2006, and Harbour Centre Development Limited and Walker Group Holdings Limited since 2007, all of which are listed on the Hong Kong Stock Exchange. He was formerly a non-executive director of Burwill Holdings Limited (a company listed on the Hong Kong Stock Exchange) from June 2000 to October 2011. Mr. Sze 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

Mr. CHAN Yuk Sang, aged 67, 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 (a company listed on the Hong Kong Stock Exchange) since 11 May 2010. Mr. Chan was also an independent non-executive director of Opes Asia Development Limited (a company listed on the Hong Kong Stock Exchange) between April 2011 and June 2012.

Mr. LEE Kong Wai, Conway

Mr. LEE Kong Wai, Conway, aged 58, 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), CITIC Securities Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and NVC Lighting Holding Limited (a company listed on the Hong Kong Stock Exchange) since March 2011, August 2011 and November 2012 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

Mr. NG Wai Hung, aged 49, has been an independent non-executive Director of the Company since June 2011. Mr. Ng 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 since January 2008, Fortune Sun (China) Holdings Limited since June 2006, Tech Pro Technology Development Limited since April 2011, Trigiant Group Limited since August 2011, Perception Digital Holdings Limited since January 2013 and Sustainable Forest Holdings Limited since February 2013, 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 51, 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.

Mr. FANG Wei, aged 41, 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. 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, had held positions as assistant director and the director of the finance centre and member of the execution committee of the Group, and was granted the "Special Contribution Award for Year 2011" by 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 as well as "Ten High-Profile Persons in Cash Management for Year 2012" (2012年現金管理十佳風雲人物) by China Finance and Trade Magazine (中國財貿雜誌) and China Treasury Research and Development Centre (財資研究發展中心) jointly.

Ms. WEI Qiu Li, aged 45, has been re-designated as the Senior Vice President of the Group since 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. LI Jun Tao, aged 47, has been re-designated as the Senior Vice President of the Group since March 2012, mainly responsible for overall operation and management of the business system 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, senior vice president for the group operation system, 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 was graduated from China Europe International Business School (中歐國際工商學院) with Executive Master Degree in Business Administration (i.e. EMBA). 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. MU Gui Xian, aged 40, has been re-designated as the Senior Vice President of the Group since 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. HE Yang Qing, aged 49, has been re-designated as the Senior Vice President of the Group in late 2012, mainly responsible for the operation and management of the operation system (such as the first-tier market operation centre, second-tier market operation centre, chain development centre, customer service centre, etc.) as well as the brand management centre of the Group. Before the re-designation, Mr. He was the Vice President of the Group. Mr. He joined the Group in 2003 and had previously held positions as member of Decision-making Committee and assistant director of the sales centre of the Group. Mr. He has over 20 years of extensive and solid experience in the industries of retail sale and manufacture of home electrical appliances, was named as "Top Ten Persons of Brand Building in China for Year 2005" (2005年中國品牌建設十大人物) and "Ten Outstanding Brand Managers in China for Year 2007" (2007年中國十大傑出品牌經理人), and was awarded "Advertisers' Great Wall Award – Meritorious Figure Award for Year 2011" (廣告主長城獎－2011年度人物功勛獎).

REPORT OF THE DIRECTORS

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 2012.

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 121.

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 2012 is set out in the Consolidated Statement of Financial Position on pages 85 to 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 31 to the financial statements on page 163.

DIVIDENDS

The Board does not recommend the payment of a final dividend for 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.

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 34 to the financial statements on pages 169 to 171 and in the consolidated statement of changes in equity.

As at 31 December 2012, the Company's reserves available for distribution to shareholders of the Company amounted to negative RMB351,503,000 (2011: negative RMB164,667,000) 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 132 to 134.

MAJOR SUPPLIERS AND CUSTOMERS

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

– the largest supplier	11.79%
– five largest suppliers combined	36.19%

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 engaged 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 RMB9.58 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

Non-Executive Directors

Mr. ZHANG Da Zhong	
Mr. ZHU Jia	
Ms. WANG Li Hong	
Mr. CHEUNG Leong	(appointed with effect from 28 June 2012)
Mr. Ian Andrew REYNOLDS	(retired with effect from 28 June 2012)

Independent Non-Executive Directors

Mr. SZE Tsai Ping, Michael
Mr. CHAN Yuk Sang
Mr. LEE Kong Wai, Conway
Mr. NG Wai Hung
Mr. Thomas Joseph MANNING (resigned with effect from 24 May 2012)

DIRECTORS' SERVICE CONTRACTS

None of the Directors 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 37 to the financial statements on page 153, 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.

On 29 July 2004, Mr. Wong and the Company entered into the Non-competition Undertaking 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 2012, 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	9,200,000 *(Note1)*	–	–	–	9,200,000	0.05
Zhu Jia	1,168,920	–	–	–	1,168,920	0.01
Wang Jun Zhou	11,263,000 *(Note2)*	–	–	–	11,263,000	0.07

Notes:

1. The relevant interests included 1,200,000 shares of the Company issuable upon the exercise of the options granted to the Director pursuant to the share option scheme adopted by the Company on 15 April 2005 as was particularly described in the section headed "Share Option Scheme" below. These Options were held by the Director beneficially.

2. The relevant interest included 11,263,000 shares issuable upon exercise of the Options granted to the Chief Executive pursuant to the Share Option Scheme. These Options were held by the Chief Executive beneficially.

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

Save as disclosed above, as at 31 December 2012, 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 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 25 March 2013, a maximum number of Shares available for issue under the Share Option Scheme was 403,565,732 Shares (including options for 129,586,700 ordinary shares that have been granted but not yet exercised), representing approximately 2.39% of the issued share capital of the Company as at 25 March 2013.

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 2012, Options to subscribe for an aggregate of 133,267,700 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per Share HK$	Number of Options: As at 1 January 2012	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2012 (Note 1)	Price of Shares for Options exercised during the year (Note 5) HK$
Director								
Ng Kin Wah	7 July 2009	1.90	1,200,000	–	–	–	1,200,000	–
Chief Executive								
Wang Jun Zhou	7 July 2009	1.90	11,700,000	–	–	(437,000)	11,263,000	–
Other employees	7 July 2009	1.90	145,686,200	–	(1,500,000)	(23,381,500) *(Note 4)*	120,804,700	2.15
Total			158,586,200	–	(1,500,000)	(23,818,500)	133,267,700	

Notes:

1. On 5 December 2011, a resolution was passed by the shareholders of the Company to amend the terms of the Options granted and the terms of the Share Option Scheme. On 31 August 2012, another resolution was passed by the Board to further amend the terms of the Options granted. As at 31 December 2012, the revised terms would have the following effects:

    a. 80,559,700 vested Options will become lapsed and ceased to have any further effect after 15 November 2015.

    b. Up to 23,059,750 Options may be exercised commencing from 15 May 2013 and will become lapsed and ceased to have any further effect after 15 November 2015.

    c. Up to 19,765,500 Options may be exercised commencing from 15 May 2014 and will become lapsed and ceased to have any further effect after 15 November 2015.

    d. Up to 9,882,750 Options may be exercised commencing from 15 May 2015 and will become lapsed and ceased to have any further effect after 15 November 2015.

e. 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.

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. 23,818,500 Options were lapsed during the year ended 31 December 2012.

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or Chief Executive, as at 31 December 2012, 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	32.10
Ms. Du Juan *(Note 2)*	Long position	5,417,539,490	32.10
Shinning Crown Holdings Inc. *(Note 3)*	Long position	4,550,100,000	26.96
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
Carmignac Gestion	Long position	848,009,394	5.03

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.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2012 are set out in note 20 to the financial statements on pages 143 to 149.

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 up to 31 December 2007. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Supply Agreement (the "Master Supply Supplemental Agreement") with GOME Appliance, pursuant to which certain terms of the Master Supply Agreement were amended and the 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 RMB249.6 million.

On 17 December 2012, GOME Appliance and 國美電器零售有限公司 (GOME Electrical Appliances Retail Co. Ltd.) ("GOME Retail") a company indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company entered into an agreement (the "2012 Master Supply Agreement") to renew the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement and the Second Supplemental Master Supply Agreement), pursuant to which the Group agreed to supply electrical appliances and consumer electronics products to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015 as requested by the Non-listed GOME Group from time to time on an at-cost basis, 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 RMB550 million, respectively.

(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 up to 31 December 2007. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Purchase Agreement (the "Master Purchase Supplemental Agreement") with GOME Appliance, pursuant to which certain terms of the Master Purchase Agreement were 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 RMB321.6 million.

On 17 December 2012, GOME Appliance and GOME Retail entered into an agreement (the "2012 Master Purchase Agreement") to renew the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement and the Second Supplemental Purchase Agreement), pursuant to which the Non-listed GOME Group agreed to supply electrical appliances and consumer electronics products to the Group for a period of three years from 1 January 2013 to 31 December 2015 as requested by the Group from time to time on an at-cost basis, 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 RMB550 million, respectively.

(3) The First Master Agreement and the Second Master Agreement

On 25 May 2012, 北京國美鋭動電子商務有限公司 (Beijing GOME Ruidong e-Commerce Co., Ltd.) ("GOME Ruidong"), a company owned by Mr. Wong and his associates subscribed for a 40% interest in the enlarged capital of each of 庫巴科技（北京）有限公司 (Kuba Technology (Beijing) Co.,Ltd.) (" Kuba") and 國美在線電子商務有限公司 (GOME-on-line e-Commerce Co., Ltd.) ("GOME-on-line") (formerly known as 新鋭美電子商務有限公司 (Xinruimei E-Commerce Co., Ltd.)) for an aggregate consideration of RMB73,333,333. Upon completion of the subscription, each of Kuba and GOME-on-line became an associate of Mr. Wong and thus a connected person of the Company, and agreements (the "First Master Agreement") and (the "Second Master Agreement") were entered into to regulate the continuing connected transactions in relation to Kuba and GOME-on-line arisen as a result of the subscription.

Pursuant to the terms of the First Master Agreement, GOME Appliance will, or will procure its nominee (being a member of the Group) to, supply general merchandise (including electrical appliances and consumer electronic products) and provide logistics services (including warehousing and delivery of general merchandise to end customers) and after-sales services (including repairs, maintenance and customer service of general merchandise to end customers) to Kuba and GOME-on-line from time to time during the term of the First Master Agreement. The Second Master Agreement has similar terms, pursuant to which GOME Ruidong will, or will procure its nominee (being a member of the Non-Listed GOME Group) to, supply general merchandise (including electrical appliances and consumer electronic products) and provide logistics services (including warehousing and delivery of general merchandise to end customers) and after-sales services (including repairs, maintenance and customer service of general merchandise to end customers) to Kuba and GOME-on-line from time to time during the term of the Second Master Agreement. The First Master Agreement and the Second Master Agreement comprise of three limbs of (a) supply of products, (b) provision of logistics services and (c) provision of after-sales services.

Each of the First Master Agreement and the Second Master Agreement has an annual cap of RMB800 million for the period from the date of the agreement up to 31 December 2012 and for each of the two years ending 31 December 2014. During the year, the total transaction amount under the First Master Agreement and Second Master Agreement were approximately RMB661.9 million and RMB246.9 million, respectively.

Subsequent to 31 December 2012, in order to cater for the operational needs of the Group, the Company entered into the following agreements on 5 March 2013 to reorganise abovementioned continuing connected transactions of the Group:

(a) The Group terminated the 2012 Master Purchase Agreement, the 2012 Master Supply Agreement, the First Master Agreement and the Second Master Agreement, respectively, with the original other parties of the agreements;

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

(b) Logistics services agreements (the "First Logistics Services Agreement") and (the "Second Logistics Services Agreement") for the provision of logistics services (including warehousing and delivery of general merchandise to end customers) by the Group, GOME Ruidong and the Non-listed GOME Group to 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 RMB150 million, respectively;

(c) After-sales services agreements (the "First After-Sales Services Agreement") and (the "Second After-Sales Services Agreement") 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, respectively;

(d) The master merchandise purchase agreement (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, RMB6.5 billion and RMB8 billion, respectively. The agreement and the annual caps were approved by the independent shareholder's of the Company in the special general meeting held on 2 April 2013;

(e) The master merchandise supply agreement (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, RMB6.5 billion and RMB8 billion, respectively. The agreement and the annual caps were approved by the independent shareholders of the Company in the special general meeting held on 2 April 2013.

(4) 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 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.

On 17 December 2012, Kunming Hengda, 西寧國美電器有限公司 (Xining GOME Appliance Company Limited) ("Xining GOME"), 天津鵬盛物流有限公司 (Tianjin Pengsheng Logistics Company Limited) ("Tianjin Pengsheng") and 昆明國美物流有限公司 (Kunming GOME Logistics Company Limited) ("Kunming Logistics"), all being indirect wholly-owned subsidiaries of the Company, entered into an agreement (the "2012 Purchasing Service Agreement") with GOME Retail, 南寧國美物流有限公司 (Nanning GOME Logistics Co., Ltd.) ("Nanning Logistics") and 天津國美恒信物流有限公司 (Tianjin GOME Hengxin Logistics Co., Ltd.) ("Tianjin Hengxin"), all being indirectly owned by Mr. Wong and his associates thus, are connected persons to the Company, pursuant to which Kunming Hengda, Xining GOME, Tianjin Pengsheng and Kunming Logistics agreed to provide and to 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 2013 to 31 December 2015 subject to a cap on the purchasing service fee of RMB150 million for each financial year.

(5) 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.

On 17 December 2012, Jinan Wansheng, Tianjin Consultancy, 昆明勤安商業管理諮詢有限公司 (Kunming Qinan Commercial Consultancy Company Limited) ("Kunming Qinan") and 蘭州恒達商業管理諮詢有限公司 (Lanzhou Hengda Commercial Consultancy Company Limited) ("Lanzhou Hengda"), all being indirect wholly-owned subsidiaries of the Company, entered into an agreement (the "2012 Management Agreement") with GOME Retail, pursuant to which Jinan Wansheng, Tianjin Consultancy, Kunming Qinan and Lanzhou Hengda agreed to provide and to 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 2013 to 31 December 2015 subject to a cap on the management fee of RMB100 million for each financial year.

(6) 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.

In addition, owing to the operational requirements of the Group, on 6 January 2012 and 25 May 2012, GOME Appliance has entered into new lease agreements (the "New Pengrun Lease Agreements") 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 and from 15 March 2012 to 31 December 2012, respectively. The total annual rent (including management fee) payable by the Group under the Pengrun Lease Agreements and New Pengrun Lease Agreements will be a sum of approximately RMB46.08 million, which the Group will not exceed for the period covered by the agreement. During the year, the total rental expense was approximately RMB46.08 million.

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 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. During the year, the total rental expense was approximately RMB14.45 million.

As those leases are due to expire on 31 December 2012, the Group has entered into new lease agreements (the "2013 Pengrun Lease Agreements") and (the "2013 Xibahe Lease Agreement") to renew the leases for the said properties on 17 December 2012.

Pursuant to the terms of the 2013 Pengrun Lease Agreements, GOME Appliance will lease from Beijing Pengrun Property certain office units in the Pengrun Building for use by the Group as its office in Beijing. The 2013 Pengrun Lease Agreements have terms of 1 year from 1 January 2013 to 31 December 2013. The annual rent (including management fee) payable by the Group for the one year ending 31 December 2013 would be a sum of approximately RMB78.63 million.

Pursuant to the terms of the 2013 Xibahe Lease Agreement, GOME Appliance will lease the Xibahe Property from Beijing GOME for use as a retail store of the Group for a term of 1 year from 1 January 2013 to 31 December 2013. The rent payable by the Group would be approximately RMB14.45 million for the year ending 31 December 2013.

All independent non-executive Directors have reviewed the continuing connected transactions as set out in paragraphs (1) to (6) 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 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.

PENSION SCHEME

Particulars of the Group’s pension schemes are set out in note 9 to the financial statements on page 128.

COMMITMENTS

Details of commitments are set out in note 36 to the financial statements on pages 172 to 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 66, has complied with the Corporate Governance Code 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 66 to 80.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 42 to the financial statements on page 188.

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.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save for the share options as set out above and in note 32 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2012.

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 2012, Tianjin Consultancy had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2011: 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 was 5.90% per annum. The Advance was further extended in December 2012 and the interest was 5.4%. As at 31 December 2012, the Advance was RMB3.6 billion and the Advance represented approximately 9.90% 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 43 to the financial statements on page 194 to 195.

FIVE YEARS FINANCIAL SUMMARY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board

Zhang Da Zhong
Chairman

Hong Kong, 25 March 2013

RISK FACTORS

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

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

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. 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 2012, 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 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.

Set out below are the status and details of compliance by the Company of the CG Code and the New CG Code in the year ended 31 December 2012.

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 2012.

DEVIATION

Under code provision A.6.7 of the New CG Code, independent non-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.

BOARD OF DIRECTORS

Board composition

During the year ended 31 December 2012 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)*
Mr. Ng Kin Wah	*(Executive Director)*
Mr. Zou Xiao Chun	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wang Li Hong	*(Non-executive Director)*
Mr. Cheung Leong	*(Non-executive Director) (appointed with effect from 28 June 2012)*
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)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*
Mr. Ian Andrew Reynolds	*(Non-executive Director) (retired on 28 June 2012)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director) (resigned on 24 May 2012)*

The biographical details of the current Board members are set out on pages 38 to 43 of this Annual Report.

Each of Mr. Zhu Jia, Ms. Wang Li Hong and Mr. Cheung Leong, being a non-executive Director, was appointed or re-elected at the Year 2012 Annual General Meeting of the Company with a specific term of three years from 28 June 2012. Each of Mr. Sze Tsai Ping, Michael and Mr. Chan Yuk Sang, being an independent non-executive Director, was re-elected at the Year 2012 Annual General Meeting of the Company with a specific term of three years from 28 June 2012. Each of Mr. Zhang Da Zhong, being a non-executive Director and Mr. Lee Kong Wai, Conway, being an independent non-executive Director, was appointed with a specific term of 3 years from 10 March 2011. Mr. Ng Wai Hung, being an independent non-executive Director, was 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.

Board meetings and general meetings

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2012, 9 Board meetings (including 4 regular Board meetings) and 2 general meetings of the Company were held. Details of the Directors' attendance records during the year are as follows:

Directors	Annual General Meeting held on 28 June 2012 Attendance	Special General Meeting held on 3 December 2012 Attendance	Board Meeting Attendance
Mr. Zhang Da Zhong	1/1	1/1	9/9 (4/4)*
Mr. Ng Kin Wah	1/1	1/1	8/9 (4/4)*
Mr. Zou Xiao Chun	1/1	1/1	9/9 (4/4)*
Mr. Zhu Jia	1/1	0/1	9/9 (4/4)*
Ms. Wang Li Hong	1/1	0/1	9/9 (4/4)*
Mr. Cheung Leong**	0/1	1/1	6/9 (2/4)*
Mr. Sze Tsai Ping, Michael	0/1	0/1	9/9 (4/4)*
Mr. Chan Yuk Sang	1/1	1/1	9/9 (4/4)*
Mr. Lee Kong Wai, Conway	1/1	1/1	9/9 (4/4)*
Mr. Ng Wai Hung	1/1	0/1	9/9 (4/4)*
Mr. Ian Andrew Reynolds***	0/1	0/1	3/9 (2/4)*
Mr. Thomas Joseph Manning****	0/1	0/1	2/9 (1/4)*

* *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.*

** *Mr. Cheung Leong was appointed as a non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 28 June 2012 and therefore did not attend such annual general meeting and all of the three Board meetings held prior to his appointment.*

*** *As disclosed in the announcement of the Company dated 28 June 2012, Mr. Ian Andrew Reynolds retired as a Director at the annual general meeting of the Company held on 28 June 2012. Therefore, he did not attend any general meeting of the Company and all of the six Board meetings held subsequent to his retirement.*

**** *As disclosed in the announcement of the Company dated 24 May 2012, Mr. Thomas Joseph Manning resigned as a Director with effect from 24 May 2012. Therefore, he did not attend all of the seven Board meetings and any general meeting of the Company held subsequent to his resignation.*

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 and the New 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 and the New CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code and the New 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 and the New CG Code during the review period. Mr. Zhang Da Zhong served as the chairman of the Company, 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.

Directors' Trainings

As an internal routine, during the year under review, the Company provided the Directors, the management and other relevant departments of the Company with the following trainings to keep them abreast of their responsibilities and roles under the relevant law and regulations as well as various internal control systems for compliance purposes:

1. annual in-house training conducted by external counsel in early March 2012 on continuing obligation to disclosure price sensitive information as well as the amendments to the Listing Rules and the New CG Code coming into effect in 2012 for 2.5 hours (the "Annual In-house Training").

2. Subject to participation quotas available to the Company, the Company from time to time invited the Directors, the management and the relevant staffs of the Company to attend seminars given by external professional firms and regulators.

As an internal routine, during the year under review, the Company also provided each new Director with a comprehensive training on duties and responsibilities of directors of Hong Kong listed companies conducted by external counsel shortly after the appointment (the "Upfront Directors' Training") and the various updated internal guidelines of the Company for compliance purposes.

Details of trainings received by each Director during the year under review are set out below:

Names of Directors	Details of trainings
Mr. Zhang Da Zhong	– Attended the Annual In-house Training.
Mr. Ng Kin Wah	– Attended the Annual In-house Training.
Mr. Zou Xiao Chun	– Attended the Annual In-house Training.
	– Attended the seminar on new corporate governance code and practical issues for the Hong Kong Listing Rules, given by the Hong Kong Stock Exchange for 3 hours in January 2012.
	– Attended the seminar on inside information disclosure and connected transaction regulations given by the Securities and Futures Commission as well as the Hong Kong Stock Exchange for 3.5 hours in December 2012.
Mr. Zhu Jia	– Attended the Annual In-house Training.
Ms. Wang Li Hong	– Attended the Annual In-house Training.
Mr. Cheung Leong	– Attended the Upfront Directors' Training for 2.5 hours in early July 2012, shortly after his appointment in late June 2012.

Names of Directors	Details of trainings
Mr. Sze Tsai Ping, Michael	– Attended the Annual In-house Training. – Attended seminar on learning and practicing new corporate governance code given by Baker & McKenzie (an international law firm) for 2 hours in January 2012. – Attended seminar on company performance evaluation and control for directors given by The Hong Kong Institute of Directors for 3 hours in March 2012. – Attended workshop on the legal liabilities of independent directors in providing requested or correct information to auditors under the new section of the Companies Ordinance, organized by Deloitte (an external auditors firm) for 1.5 hours in September 2012. – Attended the independent non-executive directors forum organized by KPMG (an external auditors firm) for 2 hours in September 2012. – Attended seminar on disclosure of insider information given by Ernst & Young (an external auditors firm) for 3 hours in October 2012.
Mr. Chan Yuk Sang	– Attended the Annual In-house Training. – Attended seminar on new corporate governance code and upcoming price sensitive information regulations given by Ernst & Young (an external auditors firm) for 3 hours in January 2012. – Attended seminar on learning and practicing new corporate governance code given by Baker & McKenzie (an international law firm) for 2 hours in January 2012. – Attended workshop on roles and responsibilities of the independent directors under the corporate governance code as well as management and mitigation of risk of financial statement fraud, organized by Deloitte (an external auditors firm) for 1.5 hours in July 2012. – Attended seminar on continuing obligations of a Hong Kong listed company and its directors given by Freshfields Bruckhaus Deringer (an international law firm) for 2 hours in July 2012. – Attended workshop on the legal liabilities of independent directors in providing requested or correct information to auditors under the new section of the Companies Ordinance, organized by Deloitte (an external auditors firm) for 1.5 hours in September 2012.
Mr. Lee Kong Wai, Conway	– Received, read and understood the training materials of the Annual In-house Training. – Attended external seminar on regulators' views on independent directors for 2 hours in November 2012. – Attended external seminar on guide for independent directors for 2 hours in March 2012.

Names of Directors	Details of trainings
Mr. Ng Wai Hung	– Received, read and understood the training materials of the Annual In-house Training. – Attended external seminar on human resources risk management given by Hong Kong Law Society for 3.5 hours in September 2012. – Attended external seminar on recent developments in company law given by a practising lawyer for 3.25 hours in June 2012.
Mr. Thomas Joseph Manning	– Attended the Annual In-house Training.
Mr. Ian Andrew Reynolds	– Attended the Annual In-house Training.

BOARD COMMITTEES

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

1. Remuneration Committee;
2. Nomination Committee;
3. Independent Committee; and
4. 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. The terms of reference were revised in March 2012 based on paragraph B.1.2 of the New CG Code. During the year ended 31 December 2012, a majority of the members of the Remuneration Committee is independent non-executive Directors and the Remuneration Committee comprised the following members:

Mr. Ng Wai Hung	*(Independent non-executive Director and the chairman of the Remuneration Committee)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*
Mr. Thomas Joseph Manning	*(resigned as independent non-executive Director and member of the Remuneration Committee on 24 May 2012)*

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 determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and to make recommendations to the Board on the remuneration of non-executive Directors and independent non-executive Directors, having regard to salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise 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 2012, the Remuneration Committee approved the annual vesting of the granted share options, its revised terms of reference as well as the terms and remunerations of the executive Director for re-election, and recommended the terms and remunerations of the non-executive Directors and independent non-executive Directors for re-election and election.

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	2/2
Mr. Chan Yuk Sang	2/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Lee Kong Wai, Conway	2/2
Mr. Zhu Jia	2/2
Mr. Thomas Joseph Manning*	1/2

* *Mr. Thomas Joseph Manning resigned as a Director and member of the Remuneration Committee with effect from 24 May 2012 and therefore did not attend the meeting of the Remuneration Committee held subsequent to his resignation.*

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. The terms of reference were revised in March 2012 based on paragraph A.5.2 of the New CG Code. During the year ended 31 December 2012, a majority of the members of the Nomination Committee is independent non-executive Directors and the Nomination Committee comprised the following members:

Mr. Chan Yuk Sang	*(Independent non-executive Director and the chairman of the Nomination Committee)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*
Mr. Zou Xiao Chun	*(Executive Director)*
Mr. Zhu Jia	*(Non-executive Director)*
Mr. Thomas Joseph Manning	*(resigned as independent non-executive Director and member of the Nomination Committee on 24 May 2012)*

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 any proposed changes to the Board to complement the Company's corporate strategy;

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 of the Board and the President 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 continuous independence of the independent non-executive Directors, revised its terms of reference, considered and recommended election, re-election, retirement and resignation of Directors and reviewed the structure, size and composition of the Board.

During the year under review, 2 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	2/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Lee Kong Wai, Conway	2/2
Mr. Ng Wai Hung	2/2
Mr. Zou Xiao Chun	2/2
Mr. Zhu Jia	2/2
Mr. Thomas Joseph Manning*	1/2

* *Mr. Thomas Joseph Manning resigned as a Director and member of the Nomination Committee with effect from 24 May 2012 and therefore did not attend the meeting of the Nomination Committee held subsequent to his resignation.*

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 and the New 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 the New 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 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 2012, the Independent Committee comprised the following members:

Mr. Zhang Da Zhong	*(Non-executive Director and the chairman of the Independent Committee)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wang Li Hong	*(Non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(resigned as independent non-executive Director and member of the Independent Committee on 24 May 2012)*

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 considered and approved new continuing connected transactions, new connected transactions and renewal of a number of existing continuing 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	3/3
Mr. Zhu Jia	3/3
Ms. Wang Li Hong	3/3
Mr. Sze Tsai Ping, Michael	3/3
Mr. Chan Yuk Sang	3/3
Mr. Lee Kong Wai, Conway	3/3
Mr. Ng Wai Hung	3/3
Mr. Thomas Joseph Manning*	1/3

* *Mr. Thomas Joseph Manning resigned as a Director and member of Independent Committee with effect from 24 May 2012 and therefore did not attend the two meetings of the Independent Committee held subsequent to his resignation.*

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 2012, the Audit Committee comprised the following members:

Mr. Lee Kong Wai, Conway	*(Independent non-executive Director and the chairman of the Audit Committee)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(resigned as independent non-executive Director and member of the Audit Committee on 24 May 2012)*

The Audit Committee has adopted written terms of reference substantially the same as those contained in paragraph C.3.3 of the CG Code. The terms of reference were revised in March 2012 based on paragraph C.3.3 of the New 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, to approve the remuneration and terms of engagement of the external auditor and to deal with 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 the financial statements, annual reports and interim reports of the Company 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 the system of internal control with the management and ensure that the 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 provides a timely response to the issues raised.

The Audit Committee shall meet at least twice each year. In 2012, 5 Audit Committee meetings were held for, amongst other matters, considering the annual results of the Group for the financial year ended 31 December 2011, the quarterly results of the Group for the three months ended 31 March 2012, the interim results of the Group for the six months ended 30 June 2012 and the quarterly results of the Group for the nine months ended 30 September 2012, 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 2012 are as follows:

Committee members	Attendance
Mr. Lee Kong Wai, Conway	5/5
Mr. Sze Tsai Ping, Michael	5/5
Mr. Chan Yuk Sang	5/5
Mr. Ng Wai Hung	5/5
Mr. Thomas Joseph Manning*	2/5

* *Mr. Thomas Joseph Manning resigned as a Director and member of the Audit Committee with effect from 24 May 2012 and therefore did not attend the three meetings of the Audit Committee held subsequent to his resignation.*

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2012 is RMB5,782,000 (2011: RMB8,400,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2012 is RMB1,014,000 (2011: RMB1,680,000). 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 2013. 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 2013.

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 2012 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 2012, the Group had implemented a new, upgraded enterprise resources planning system (i.e. the ERP system) nationwide, 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. The Company Secretary had complied with Rule 3.29 of the Listing Rules during the year under review.

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".

CONSTITUTIONAL DOCUMENTS

During 2012, there was no significant change to the Company's Bye-laws or Memorandum of Association.

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

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

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

安永會計師事務所
香港
中環添美道1號
中信大廈
22樓

電話: +852 2846 9888
傳真: +852 2868 4432
www.ey.com

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

We have audited the consolidated financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 83 to 195, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss 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
25 March 2013

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	*29(i)*	**–**	(7,349)
Gains on redemption of convertible bonds	*29*	**34,011**	–
(LOSS)/PROFIT BEFORE TAX	*6*	**(653,994)**	2,474,500
Income tax expense	*10*	**(155,997)**	(673,154)
(LOSS)/PROFIT FOR THE YEAR		**(809,991)**	1,801,346
Attributable to:			
Owners of the parent company	*34b(i)*	**(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	*11*		
– Basic		**(RMB3.5 fen)**	RMB10.9 fen
– Diluted		**(RMB3.6 fen)**	RMB10.9 fen

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	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	*16*	**(21,600)**	18,090
Gains on property revaluation	*12*	–	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	*12*	**4,163,569**	3,874,370
Investment properties	*13*	**918,472**	915,226
Goodwill	*14*	**4,030,771**	4,030,771
Other intangible assets	*15*	**99,438**	108,660
Other investments	*16*	**124,200**	145,800
Lease prepayments and deposits	*17*	**330,953**	401,994
Deferred tax assets	*18*	**136,852**	66,663
Designated loan	*19*	**3,600,000**	3,600,000
Total non-current assets		**13,404,255**	13,143,484
CURRENT ASSETS			
Inventories	*21*	**7,385,352**	9,625,044
Trade and bills receivables	*22*	**194,746**	199,598
Prepayments, deposits and other receivables	*23*	**2,542,750**	3,729,456
Due from related parties	*24*	**101,539**	169,390
Pledged deposits	*25*	**6,019,027**	4,388,998
Cash and cash equivalents	*25*	**6,730,960**	5,971,498
Total current assets		**22,974,374**	24,083,984
CURRENT LIABILITIES			
Interest-bearing bank loans	*26*	**2,434,374**	–
Trade and bills payables	*27*	**16,971,671**	17,140,383
Customers' deposits, other payables and accruals	*28*	**1,631,309**	1,523,315
Due to related parties	*24*	**112,480**	–
Convertible bonds	*29*	**–**	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

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION (CONTINUED)

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*18*	**95,263**	92,961
Derivative liability related to a cross currency swap	*30*	**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	*31*	**421,551**	421,521
Reserves	*34(a)*	**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

Zhang Da Zhong
Director

Ng Kin Wah
Director

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

Year ended 31 December 2012

	Notes	Issued capital RMB'000 Note 31	Share premium 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 34(a)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the parent company												
At 1 January 2012		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
Loss for the year		-	-	-	-	-	-	-	-	-	(596,614)	(596,614)	(213,377)	(809,991)
Other comprehensive loss for the year:														
Changes in fair value of other investments	16	-	-	-	-	-	-	(21,600)	-	-	-	(21,600)	-	(21,600)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	9,746	-	9,746	-	9,746
Total comprehensive loss for the year		-	-	-	-	-	-	(21,600)	-	9,746	(596,614)	(608,468)	(213,377)	(821,845)
Exercise of share options	32	30	3,280	-	-	(997)	-	-	-	-	-	2,313	-	2,313
Equity-settled share option arrangements	32	-	-	-	-	800	-	-	-	-	-	800	-	800
Redemption of the Old 2014 Convertible Bonds	*29(i)*	-	-	-	(30,195)	-	-	-	-	-	-	(30,195)	-	(30,195)
Redemption of the New 2014 Convertible Bonds	*29(ii)*	-	-	-	(376,387)	-	-	-	-	-	-	(376,387)	-	(376,387)
Acquisition of non-controlling interests in subsidiaries	*33(ii)*	-	-	-	(76,140)	-	-	-	-	-	-	(76,140)	64,140	(12,000)
Deemed disposal of non-controlling interests in subsidiaries	*33(iii)*	-	-	-	288,393	-	-	-	-	-	-	288,393	(215,060)	73,333
Transfer to statutory reserves		-	-	-	-	-	-	-	36,565	-	(36,565)	-	-	-
At 31 December 2012		421,551	9,461,244*	657*	(851,561)*	164,716*	117,468*	30,240*	1,378,436*	(224,346)*	4,650,674*	15,149,079	(394,766)	14,754,313

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2012

		Attributable to owners of the parent company													
	Notes	Issued capital RMB'000 Note 31	Share premium 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 34(a)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000 Note 35	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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	33(i)	-	-	-	-	-	-	-	-	-	-	-	-	8,052	8,052
Exercise of warrants	31(i)	2,300	162,125	-	-	-	-	-	-	-	-	-	164,425	-	164,425
Repurchase of shares	31(ii)	(179)	(14,395)	-	-	-	-	-	-	-	-	-	(14,574)	-	(14,574)
Exercise of share options	32	1,734	181,383	-	-	(51,302)	-	-	-	-	-	-	131,815	-	131,815
Equity-settled share option arrangements	32	-	-	-	-	54,071	-	-	-	-	-	-	54,071	-	54,071
Transfer to statutory reserves		-	-	-	-	-	-	-	205,037	-	(205,037)	-	-	-	-
Dividends paid	35	-	-	-	-	-	-	-	-	-	(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 RMB14,727,528,000 (2011: RMB15,527,242,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(653,994)**	2,474,500
Adjustments for:			
Finance income	*7*	**(441,221)**	(400,291)
Finance costs	*7*	**227,708**	241,772
Fair value loss on the derivative component of convertible bonds	*6*	**–**	7,349
Fair value loss on a cross currency swap	*30*	**4,953**	–
Gain on redemption of the Old 2014 Convertible Bonds	*6*	**(15,998)**	–
Gain on redemption of the New 2014 Convertible Bonds	*6*	**(18,013)**	–
Fair value loss on transfer of owner-occupied properties to investment properties	*6*	**–**	9,756
Fair value gain on investment properties	*6*	**(29,739)**	(25,650)
Loss on disposal of items of property and equipment	*6*	**6,796**	498
Depreciation	*6*	**451,438**	397,217
Amortisation of intangible assets	*6*	**9,222**	9,222
Equity-settled share option expense	*32*	**800**	54,071
		(458,048)	2,768,444
Decrease/(increase) in lease prepayments and deposits		**71,041**	(15,387)
Decrease/(increase) in inventories		**2,239,692**	(1,522,736)
Decrease in trade and bills receivables		**4,852**	6,504
Decrease/(increase) in prepayments, deposits and other receivables		**1,014,540**	(1,280,142)
Decrease in amounts due from related parties		**67,851**	78,900
Decrease in pledged deposits		**837,978**	1,879,132
(Decrease)/increase in trade and bills payables		**(168,712)**	227,200
Increase/(decrease) in amounts due to related parties		**112,480**	(97,826)
Increase/(decrease) in customers' deposits, other payables and accruals		**97,228**	(315,691)
Cash generated from operations		**3,818,902**	1,728,398
Interest received		**608,887**	406,776
Dividends paid		**–**	(964,758)
PRC income tax paid		**(290,523)**	(787,145)
Net cash flows from operating activities		**4,137,266**	383,271

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities		**4,137,266**	383,271
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(783,289)**	(861,450)
Proceeds from disposal of items of property and equipment		**62,235**	83,422
Acquisition of subsidiaries, net of cash acquired	*33(i)*	**–**	41,835
Net cash flows used in investing activities		**(721,054)**	(736,193)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	*31(ii)*	**–**	(14,574)
Redemption of the Old 2014 Convertible Bonds	*29(i)*	**(155,181)**	–
Redemption of the New 2014 Convertible Bonds	*29(ii)*	**(2,442,861)**	–
Exercise of share options	*32*	**2,313**	131,815
Exercise of warrants	*31(i)*	**–**	164,425
New bank loans	*26*	**2,434,374**	–
Increase in pledged deposits for bank loans	*25*	**(2,468,007)**	–
Acquisition of non-controlling interests in subsidiaries	*33(ii)*	**(3,900)**	–
Deemed disposal of non-controlling interests in subsidiaries	*33(iii)*	**73,333**	–
Repayment of interest-bearing bank loans		**–**	(100,000)
Interest paid	*7, 29*	**(106,567)**	(74,207)
Net cash flows (used in)/from financing activities		**(2,666,496)**	107,459
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**749,716**	(245,463)
Cash and cash equivalents at beginning of year		**5,971,498**	6,232,450
Effect of foreign exchange rate changes, net		**9,746**	(15,489)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,730,960**	5,971,498
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*25*	**6,205,111**	5,314,828
Non-pledged time deposits with original maturity of less than three months when acquired	*25*	**525,849**	656,670
		6,730,960	5,971,498

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*20*	**10,447,944**	10,505,855
Total non-current assets		**10,447,944**	10,505,855
CURRENT ASSETS			
Prepayments, deposits and other receivables	*23*	**2,282**	3,274
Cash and cash equivalents	*25*	**583,289**	776,635
Total current assets		**585,571**	779,909
CURRENT LIABILITIES			
Interest-bearing bank loans	*26*	**2,434,374**	–
Other payables and accruals	*28*	**12,893**	2,554
Convertible bonds	*29*	**–**	2,111,610
Total current liabilities		**2,447,267**	2,114,164
NET CURRENT LIABILITIES		**(1,861,696)**	(1,334,255)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,586,248**	9,171,600
NON-CURRENT LIABILITY			
Derivative liability related to a cross currency swap	*30*	**4,953**	–
Total non-current liability		**4,953**	–
Net assets		**8,581,295**	9,171,600
EQUITY			
Issued capital	*31*	**421,551**	421,521
Reserves	*34(b)*	**8,159,744**	8,750,079
Total equity		**8,581,295**	9,171,600

Zhang Da Zhong
Director

Ng Kin Wah
Director

NOTES
TO FINANCIAL STATEMENTS

31 December 2012

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 operation 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, and other investments which are classified as available-for-sale financial assets, and 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. 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 it 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 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that 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 – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosure -Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 Revised Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 Revised – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	*Employee Benefits*[2]
IAS 27 Revised	*Separate Financial Statements*[2]
IAS 28 Revised	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments*: *Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

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

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

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

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. The Group will quantify the effect in conjunction with other phases, when the financial standard including all phases is issued.

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

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 addresses the issues raised in SIC 12.

Based on the preliminary analysis performed, IFRS 10 will affect the accounting for the Group's designated loan of RMB3,600 million (note 19). Having considered the power of the Group over Dazhong Appliances and the Group's great exposure to variability of returns of Dazhong Appliances through the Management Agreement (note 5(ii)) and other agreements which include the loan agreement and the option agreement entered into between the Group and Beijing Zhansheng, the Group has determined that these contractual rights held by the Group would be sufficient to give it control over Dazhong Appliances under IFRS 10 and the Group would have obtained control over Dazhong Appliances since the date of initial contractual arrangement. Upon the adoption of IFRS 10 on 1 January 2013, retrospective adjustments will be made to the previous accounting which include the adjustments to the recognition and measurement of the identifiable assets acquired and the liabilities assumed in Dazhong Appliances at the date of initial contractual arrangement and subsequently Dazhong Appliances will be treated as a subsidiary of the Group and consolidated as if IFRS 10 had always been effective. The Group is in the process of assessing the quantitative impact on the financial statements for the year ended 31 December 2012 (which will be the comparative period in the financial statements for the year ending 31 December 2013).

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities 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.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

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

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (as revised in 2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

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, IAS 27 (as revised in 2011), IAS 28 (as revised in 2011), and the subsequent amendments to these standards issued in June and October 2012 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.

The IAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 Amendments 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.

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

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

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 that are not classified as held for sale in accordance with IFRS 5 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 to measure 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 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the 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 acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

An assessment is made at the end of each reporting period as to whether there is an 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

(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) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

An item of property and equipment including 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 the Group's enterprise operating systems 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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.

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

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 other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the 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 write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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

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

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

Financial liabilities

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

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 in IAS 39 are satisfied.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

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.

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, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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 rendered 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 over 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 payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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.

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 payments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item 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 prevailing at the end of the reporting period and their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

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

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.

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.

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

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 financial assets
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a 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.

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 2012 was RMB4,030,771,000 (2011: RMB4,030,771,000). 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. These 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 2012 was RMB918,472,000 (2011: RMB915,226,000). 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 2012 was RMB111,086,000 (2011: RMB41,707,000).

The unrecognised tax losses at 31 December 2012 amounted to RMB3,311,900,000 (2011: RMB1,898,900,000). 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 2012, the carrying amount of available-for-sale assets was RMB124,200,000 (2011: RMB145,800,000). 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 2012 was RMB4,163,569,000 (2011: RMB3,874,370,000). 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 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.

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

4. OPERATING SEGMENT INFORMATION *(continued)*

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 RMB'000	2011 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 (note 33(i)).

4. OPERATING SEGMENT INFORMATION *(continued)*

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.

(b) Non-current assets

	2012	2011
	RMB'000	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	*13*	**29,739**	25,650
Foreign exchange difference, net		**21,051**	–
		50,790	25,650
		1,541,381	3,302,082

Notes:

(i) The Non-listed GOME Group is defined in note 37(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 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 19) 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	*12*	**451,438**	397,217
Amortisation of intangible assets	*15, (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	*12*	**–**	9,756
Fair value gain on investment properties	*13*	**(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	*29(i)*	**–**	7,349
Gain on redemption of the Old 2014 Convertible Bonds	*29(i)*	**(15,998)**	–
Gain on redemption of the New 2014 Convertible Bonds	*29(ii)*	**(18,013)**	–
Fair value loss on a cross currency swap	*30*	**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 *(note 8)*:			
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

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	29	**(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 19) 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. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's 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:

	2012	2011
	RMB'000	RMB'000
Fees	**4,099**	2,823
Other emoluments:		
Salaries, allowances, bonuses and other expense	**4,339**	29,210
Equity-settled share option expense	**1,315**	(69)
Pension scheme contributions	**60**	101
	5,714	29,242

During the year 2009, certain directors and chief executive were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of these 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' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

		2012	2011
	Note	**RMB'000**	RMB'000
Mr. Chan Yuk Sang		**488**	387
Mr. Sze Tsai Ping, Michael		**488**	387
Mr. Thomas Joseph Manning	*(ii)*	**194**	387
Mr. Lee Kong Wai		**488**	277
Mr. Ng Wai Hung		**488**	277
		2,146	1,715

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2011: Nil).

(ii) Mr. Thomas Joseph Manning resigned as an independent non-executive director with effect from 24 May 2012.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive

2012	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		–	1,200	238	11	1,449
Mr. Zou Xiao Chun		–	1,751	–	19	1,770
		–	2,951	238	30	3,219
Non-executive directors:						
Mr. Zhu Jia		488	–	–	–	488
Ms. Wang Li Hong		488	–	–	–	488
Mr. Ian Andrew Reynolds	*(i)*	241	–	–	–	241
Mr. Zhang Da Zhong		488	–	–	–	488
Mr. Cheung Leong	*(ii)*	248	–	–	–	248
		1,953	–	–	–	1,953
Chief executive:						
Mr. Wang Jun Zhou	*(iii)*	–	1,388	1,077	30	2,495
		1,953	4,339	1,315	60	7,667

Notes:

(i) Mr. Ian Andrew Reynolds retired as a non-executive director on 28 June 2012.

(ii) Mr. Cheung Leong was appointed as a non-executive director with effect from 28 June 2012.

(iii) Mr. Wang Jun Zhou retired as an executive director on 10 June 2011 and remained as the chief executive of the Group.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive *(continued)*

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)*	–	3,582	4,537	29	8,148
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
		–	29,210	(69)	101	29,242
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	–	–	–	1,108
		1,108	29,210	(69)	101	30,350

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. Mr. Wang Jun Zhou was the chief executive 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 Chen Xiao and 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.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2011: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(c) Five highest paid individuals

The five highest paid individuals during the year included one director and the chief executive (2011: two directors and the chief executive). Details of directors' remuneration are set out above. Details of the remuneration for the year of the remaining three (2011: two) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, allowances, bonuses and other expense	**3,519**	4,646
Pension scheme contributions	**85**	52
Equity-settled share option expense	**2,469**	7,000
	6,073	11,698

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

	Number of individuals	
	2012	2011
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,627,201 to RMB2,034,000)	**1**	–
HK$2,500,001 to HK$3,000,000 (equivalent to RMB2,034,001 to RMB2,440,800)	**2**	–
HK$6,000,001 to HK$6,500,000 (equivalent to RMB4,881,601 to RMB5,288,400)	**–**	1
HK$8,000,001 to HK$8,500,000 (equivalent to RMB6,508,801 to RMB6,915,600)	**–**	1
	3	2

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 2012 and 2011.

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 2012 and 2011.

The Group's contributions to pension schemes for the year ended 31 December 2012 amounted to approximately RMB418,270,000 (2011: RMB386,034,000).

10. 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 *(note 18)*	**(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.

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.

10. INCOME TAX EXPENSE *(continued)*

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

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 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.

11. 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 **RMB'000**	2011 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

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

		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").

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.

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 2012						
At 31 December 2011 and 1 January 2012:						
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
At 1 January 2012, net of accumulated depreciation and impairment	2,638,490	576,491	630,250	27,395	1,744	3,874,370
Additions	124,470	255,021	228,634	10,761	164,289	783,175
Disposals	–	(51,604)	(17,315)	(112)	–	(69,031)
Depreciation provided during the year	(84,867)	(163,274)	(191,726)	(11,571)	–	(451,438)
Transfers from construction in progress	–	–	159,433	–	(159,433)	–
Transfers from investment properties *(note 13)*	26,493	–	–	–	–	26,493
At 31 December 2012, net of accumulated depreciation and impairment	2,704,586	616,634	809,276	26,473	6,600	4,163,569
At 31 December 2012:						
Cost	3,194,153	1,535,895	1,317,496	90,106	6,600	6,144,250
Accumulated depreciation and impairment	(489,567)	(919,261)	(508,220)	(63,633)	–	(1,980,681)
Net carrying amount	2,704,586	616,634	809,276	26,473	6,600	4,163,569

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 2011						
At 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 33(i))*	–	–	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)*

Certain of the buildings of the Group in the PRC were pledged as security for bills payable (note 27) of the Group as at 31 December 2012. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2012 amounted to RMB1,267,934,000 (31 December 2011: RMB1,467,444,000).

13. INVESTMENT PROPERTIES

Group

	2012	2011
	RMB'000	RMB'000
Carrying amount at 1 January	**915,226**	830,611
Transfer from owner-occupied properties *(note 12)*	**–**	88,193
Net gain from a fair value adjustment	**29,739**	25,650
Transfer to owner-occupied properties *(note 12)*	**(26,493)**	(28,885)
Exchange realignment	**–**	(343)
Carrying amount at 31 December	**918,472**	915,226

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 37(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 approach and direct comparison approach, as at 31 December 2012. 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 2012, investment properties of approximately RMB24,327,000 (31 December 2011: RMB13,701,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB894,145,000 (31 December 2011: RMB901,525,000) 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 bills payable (note 27) of the Group as at 31 December 2012. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2012 amounted to RMB287,643,000 (31 December 2011: RMB773,702,000).

14. GOODWILL

Group

	2012 RMB'000	2011 RMB'000
At 1 January:		
Cost	**4,040,771**	4,024,981
Accumulated impairment	**(10,000)**	(10,000)
Net carrying amount	**4,030,771**	4,014,981
Cost at 1 January, net of accumulated impairment	**4,030,771**	4,014,981
Acquisition of subsidiaries *(note 33(i))*	**–**	15,790
At 31 December	**4,030,771**	4,030,771
At 31 December:		
Cost	**4,040,771**	4,040,771
Accumulated impairment	**(10,000)**	(10,000)
Net carrying amount	**4,030,771**	4,030,771

Impairment testing of goodwill

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

	2012 RMB'000	2011 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 33(i))*	**15,790**	15,790
	4,040,771	4,040,771
Impairment	**(10,000)**	(10,000)
	4,030,771	4,030,771

14. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*
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 14.54% to 15.25% (2011: range from 11.98% to 13.54%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2011: 3%). The directors of the Company believe that this growth rate is conservative and reliable for the purpose of this impairment testing.

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 five 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 2012	
At 31 December 2011 and 1 January 2012:	
Cost	156,640
Accumulated amortisation	(47,980)
Net carrying amount	108,660
Cost at 1 January 2012, net of accumulated amortisation	108,660
Amortisation provided during the year	(9,222)
At 31 December 2012	99,438
At 31 December 2012:	
Cost	156,640
Accumulated amortisation	(57,202)
Net carrying amount	99,438
31 December 2011	
At 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 *(Note33(i))*	1,725
Amortisation provided during the year	(9,222)
At 31 December 2011	108,660
At 31 December 2011 and at 1 January 2012:	
Cost	156,640
Accumulated amortisation	(47,980)
Net carrying amount	108,660

Note:

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

16. OTHER INVESTMENTS

	2012 RMB'000	2011 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).

17. LEASE PREPAYMENTS AND DEPOSITS

Group

	Notes	2012 RMB'000	2011 RMB'000
Prepaid land lease payments	*(i)*	**38,107**	39,284
Rental prepayments and deposits	*(ii)*	**292,846**	362,710
		330,953	401,994

Notes:

(i) Prepaid land lease payments

Group

	Note	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January		**40,461**	41,638
Recognised during the year		**(1,177)**	(1,177)
Carrying amount at 31 December		**39,284**	40,461
Current portion	*23*	**(1,177)**	(1,177)
Non-current portion		**38,107**	39,284

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

(ii) The balances at 31 December 2012 and 2011 represented the non-current portion of rental prepayments and deposits.

18. DEFERRED TAX

Group

	Note	Balance at 1 January 2012 RMB'000	Recognised in the consolidated income statement RMB'000	Balance at 31 December 2012 RMB'000
Deferred tax assets:				
Tax losses	*(i)*	**41,707**	**69,379**	**111,086**
Fair value adjustment on investment properties		**2,143**	**810**	**2,953**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**22,813**	**–**	**22,813**
		66,663	**70,189**	**136,852**
Deferred tax liabilities:				
Fair value adjustment on acquisition		**48,902**	**(3,286)**	**45,616**
Fair value adjustment on investment properties		**4,904**	**5,588**	**10,492**
Fair value adjustment on transfer of owner-occupied properties to investment properties		**39,155**	**–**	**39,155**
		92,961	**2,302**	**95,263**

18. DEFERRED TAX *(continued)*

Group *(continued)*

	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

Notes:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB407.8 million (2011: RMB386.0 million), that are available indefinitely, and in the PRC of RMB2,904.1 million (2011: RMB1,512.9 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 expense recognised in the income statement for the year ended 31 December 2012 amounted to RMB67.9 million (2011: RMB45.5 million).

18. DEFERRED TAX *(continued)*

At 31 December 2012, 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 temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised for approximately RMB6,441,546,000 at 31 December 2012 (2011: RMB6,873,411,000).

19. 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.

20. INVESTMENTS IN SUBSIDIARIES

Company

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**5,389,635**	5,389,635
Amounts due from subsidiaries	**5,105,234**	5,163,145
	10,494,869	10,552,780
Impairment	**(46,925)**	(46,925)
	10,447,944	10,505,855

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 place of 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
China Eagle Management Limited	Hong Kong	HK$10,000	–	100	Management services
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

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Gome Appliance Company Limited (“Gome Appliance”) *(viii)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*
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)*

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhou Gome Electrical Appliance Company Limited *(i)* 廣州市國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
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 ("Tianjin Consultancy") *(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 ("Kunming Logistics") *(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)*

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Gansu Gome Electrical Appliance Company Limited *(i)* 甘肅國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Beijing Pengze Real Estate Company Limited *(i)* 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding
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 ("Kunming Qinan") *(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)*

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanjing Pengze Investment Company Limited *(i)* 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding
Yongle (China) Electronics Retail Company Limited *(ii)* 永樂（中國）電器銷售有限公司	PRC	RMB220 million	–	100	*Note (iii)*
Guangdong Yongle Electronics Retail Company Limited *(i)* 廣東永樂家用電器有限公司	PRC	RMB30 million	–	100	*Note (iii)*
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)*

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shaanxi Yongle Electronics Retail Co., Ltd. *(i)* 陝西永樂電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shaanxi Cellstar Telecommunication Retail Chain Company Limited *(i)* 陝西蜂星電訊零售連鎖有限責任公司	PRC	RMB10 million	–	100	*Note (vii)*
Shandong Longji Island Construction Company Limited *(i)* 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
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$37 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 ("Xining GOME") *(i)* 西寧國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii) (iv)*

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company *(continued)*

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Dazhong Henxin Ruida Logistics Company Limited *(i)* 北京市大中恒信瑞達商貿有限公司	PRC	RMB200 million	–	100	*Note (iv)*
Tianjin Henxin Ruida Logistics Company Limited *(i)* 天津恒信瑞達物流有限公司	PRC	RMB20 million	–	100	*Note (iv)*
Kuba Technology (Beijing) Co., Ltd. ("Kuba") *(i)* 庫巴科技（北京）有限公司	PRC	RMB83 million	–	60	*Note (ix)*
GOME-on-line e-Commerce Co., Ltd. ("GOME-on-line") *(i)* 國美在線電子商務有限公司	PRC	RMB83 million	–	60	*Note (ix)*

Notes:

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

(ii) Registered as Sino-foreign equity joint ventures under 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 PRC law. The respective registered capital of these subsidiaries has been fully paid up

(ix) Online retailing of mainly electrical appliances and consumer electronic products.

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

	2012 RMB'000	2011 RMB'000
Merchandise for resale	**7,295,526**	9,554,432
Consumables	**89,826**	70,612
	7,385,352	9,625,044

As at 31 December 2012, the Group's inventories amounting to RMB227 million (31 December 2011: RMB540 million) were pledged as security for the Group's 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

	2012 RMB'000	2011 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
	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).

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

	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.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

		2012	2011
	Notes	**RMB'000**	RMB'000
Prepayments		**540,284**	573,881
Advances to suppliers		**912,501**	941,940
Other deposits and receivables		**901,073**	1,818,619
Receivables from Wuhan Yinhe	*(i)*	**166,586**	166,586
Prepayments for acquisition of properties	*(ii)*	**21,129**	21,129
Current portion of prepaid land lease payments	17	**1,177**	1,177
Management fee receivable from Dazhong Appliances		**–**	206,124
		2,542,750	3,729,456

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

Company

	2012	2011
	RMB'000	RMB'000
Prepayments	**1,090**	2,388
Other receivables	**1,192**	886
	2,282	3,274

Notes:

(i) 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.

In February 2010, the Group applied for enforcement of the court decision and the frozen properties are in the process of auction. In 2012, Wuhan Yinhe applied for the retrial of case in order to postpone the auction of the properties but such retrial application was rejected in February 2013 and the original sentence continues to serve effect. Up to 31 December 2012, the Group has not yet received the above repayment and compensation amounting to RMB166,586,000. In the opinion of the directors, the Group is able to recover the receivable because the Group's legal rights were secured by the court decision.

(ii) 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. By 31 December 2012, the Group has applied for enforcement of the court decision and has also been negotiating for settlement out of court. In the opinion of the directors, the Group is able to recover the receivable.

24. DUE FROM/TO RELATED PARTIES

Group

	Notes	2012 RMB'000	2011 RMB'000
Due from related parties			
Receivables from the Non-listed GOME Group	*(i)*	**101,539**	169,390
Due to related parties			
Payables to the Non-listed GOME Group	*(ii)*	**112,480**	–

Notes:

(i) The balance represented the trade receivables and the management and purchasing service fees due from the Non-listed GOME Group (note 37(a)(i) and note 37(a)(ii)). The aforesaid balance was interest-free, unsecured and was fully settled subsequent to the end of the reporting period.

(ii) The balance represented trade payable to the Non-listed GOME Group (note 37(a)(i)).

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2012	2011
	RMB'000	RMB'000
Cash and bank balances	**6,205,111**	5,314,828
Time deposits	**6,544,876**	5,045,668
	12,749,987	10,360,496
Less: Pledged time deposits for bills payable	**(3,551,020)**	(4,388,998)
Pledged time deposits for interest-bearing bank loans	**(2,468,007)**	–
	(6,019,027)	(4,388,998)
Cash and cash equivalents	**6,730,960**	5,971,498

Company

	2012	2011
	RMB'000	RMB'000
Cash and bank balances	**57,440**	119,965
Time deposits	**525,849**	656,670
Cash and cash equivalents	**583,289**	776,635

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

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

Group

	2012	2011
	RMB'000	RMB'000
Cash and bank balances	**6,205,111**	5,314,828
Short term deposits, non-pledged	**525,849**	656,670
Cash and cash equivalents	**6,730,960**	5,971,498

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB12,192,428,000 (31 December 2011: RMB10,092,393,000). 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

	2012	2011
	RMB'000	RMB'000
Bank loans – secured	**2,434,374**	–

The Group's bank loans as at 31 December 2012 are all denominated in United States dollars ("USD") and bear interest at 3-month LIBOR plus 2.5% to 3.5% per annum.

The Group's bank loans are secured by pledged time deposits (note 25).

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

27. TRADE AND BILLS PAYABLES

Group

	2012 RMB'000	2011 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 RMB'000	2011 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 (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); and

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

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

	2012 RMB'000	2011 RMB'000
Customers' deposits	**287,329**	236,252
Deferred revenue *(note)*	**53,220**	88,077
Other payables and accruals	**1,290,760**	1,198,986
	1,631,309	1,523,315

Note:

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

	2012 RMB'000	2011 RMB'000
At 1 January	**88,077**	88,268
Arising during the year	**280,858**	118,974
Revenue recognised on utilised points	**(230,812)**	(81,293)
Revenue recognised on expired points	**(84,903)**	(37,872)
At 31 December	**53,220**	88,077

Company

	2012 RMB'000	2011 RMB'000
Other payables and accruals	**12,893**	2,554

29. 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.

29. CONVERTIBLE BONDS *(continued)*

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

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.

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**

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 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.

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.

29. CONVERTIBLE BONDS *(continued)*

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

30. CROSS CURRENCY SWAP

On 5 March 2012, the Company entered into an offshore USD/RMB cross currency swap contract (the "Swap Contract") with Deutsche Bank AG, London Branch (the "Bank"). The contract was effective from 14 March 2012 to 14 March 2014.

By entering into the contract, the Company paid a notional amount of RMB500,000,000 to the Bank and the Bank paid a notional amount of USD79,340,000 to the Company on 14 March 2012. During the effective period of the Swap Contract, the Company and the Bank will exchange interest generated from the notional amounts at rates agreed in the Swap Contract semi-annually on 14 September and 14 March in each year. On 14 March 2014, the Company and the Bank will return the notional amount to each other.

During the period, the Group recorded the Swap Contract at fair value with any changes in value in the profit or loss. During the year ended 31 December 2012, the Group recognised a fair value loss on the Swap Contract of RMB4,953,000 in the consolidated income statement.

31. ISSUED CAPITAL

	Number of shares '000	HK$'000	Equivalent to RMB'000
Authorised:			
Ordinary shares of HK$0.025 each at 1 January 2012 and 31 December 2012	200,000,000	5,000,000	5,300,000
Issued and fully paid:			
Ordinary shares of HK$0.025 each at 1 January 2011	16,689,760	417,244	417,666
Warrants exercised *(note (i))*	108,790	2,720	2,300
Shares repurchased *(note (ii))*	(8,792)	(220)	(179)
Share options exercised *(note 32)*	83,798	2,095	1,734
Ordinary shares of HK$0.025 each at 31 December 2011 and 1 January 2012	16,873,556	421,839	421,521
Share options exercised *(note 32)*	1,500	38	30
Ordinary shares of HK$0.025 each at 31 December 2012	16,875,056	421,877	421,551

Notes:

(i) 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 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.

(ii) 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 32 to the financial statements.

32. SHARE OPTION SCHEME

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

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

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

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

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and in any event such period of time shall not exceed a period of ten years commencing on the commencement date, being the date upon which the option is deemed to be granted and accepted.

The exercise price in relation to each option offered shall be determined by the board of directors of the Company in its absolute discretion but in any event must not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date; (b) the average of the official closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (c) the nominal value of a share of the Company.

Share options do not confer right on the holders to dividends or to vote at shareholders' meetings.

32. SHARE OPTION SCHEME *(continued)*

According to the board resolution on 31 August 2012, changes were made to the Scheme including the exercise period of the share options and performance targets to vest the share options.

Upon the modification, the total increase in fair value of the then outstanding share options was approximately RMB6 million. This additional cost would be spread over the period from the date of modification until the vesting date of the modified award, which might not be the same as that of the original award.

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

	2012		2011	
	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**	**158,586**	1.90	350,974
Exercised during the year *(note (i))*	**1.90**	**(1,500)**	1.90	(83,798)
Cancelled during the year *(note (ii))*	**1.90**	**–**	1.90	(76,840)
Forfeited during the year	**1.90**	**(23,818)**	1.90	(31,750)
At 31 December	**1.90**	**133,268**	1.90	158,586

Notes:

(i) The weighted average share price at the date of exercise for share options exercised during the year was HK$2.27 per share (2011: HK$3.17 per share).

(ii) During the year, the Company cancelled nil (2011: 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 RMB nil (2011: RMB20,608,000) that otherwise would have been recognised for services received over the remainder of the vesting period.

32. 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:

2012 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
80,560	**1.90**	**on or before 15 November 2015**
23,060	**1.90**	**between 15 May 2013 and 15 November 2015**
19,765	**1.90**	**between 15 May 2014 and 15 November 2015**
9,883	**1.90**	**between 15 May 2015 and 15 November 2015**
133,268		

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		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The Group recognised share option expense of RMB800,000 during the year ended 31 December 2012 (2011: RMB54,071,000).

The 1,500,000 (2011: 83,797,800) share options exercised during the year resulted in the issue of 1,500,000 (2011: 83,797,800 shares) ordinary shares of the Company and share capital of HK$38,000 (equivalent to approximately RMB30,000) (2011: HK$2,095,000, equivalent to approximately RMB1,734,000)) and share premium of HK$4,036,000 (equivalent to approximately RMB3,280,000) (2011: HK$219,088,000, equivalent to approximately RMB181,383,000) (before issue expenses) were credited, as further detailed in note 31 to the financial statements.

32. SHARE OPTION SCHEME *(continued)*

At the end of the reporting period, the Company had 133,268,000 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 133,268,000 additional ordinary shares of the Company and additional share capital of HK$3,332,000 (equivalent to approximately RMB2,702,000) and share premium of HK$249,878,000 (equivalent to approximately RMB202,626,000) (before issue expenses and an amount transferred from related share option reserve).

At the date of approval of the consolidated financial statements, the Company had 129,587,000 share options outstanding under the Scheme, which represented approximately 0.77% of the Company's shares in issue as at that date.

33. RESTRUCTURE OF ON-LINE BUSINESS

(i) Business combination

In order to better develop online business, in January 2011, the Group acquired, via contractual arrangements, 100% equity interest in Huihai and its 80% equity interest in 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 measured the non-controlling interests in Kuba at the non-controlling interests' proportionate share of Kuba's identifiable net assets.

33. RESTRUCTURE OF ON-LINE BUSINESS *(continued)*

(i) Business combination *(continued)*

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

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. RESTRUCTURE OF ON-LINE BUSINESS *(continued)*

(ii) Acquisition of non-controlling interests in subsidiaries

On 23 May 2012, the Group entered into an agreement with Ms. Zhang Li, the then equity holder of the remaining 20% equity interest in Kuba, to acquire Ms. Zhang Li's 20% equity interest in Kuba for a consideration of RMB12,000,000. The consideration was partially settled in cash of RMB3,900,000 during 2012 and the consideration of RMB4,500,000 has been offset against the Group's other receivables from Ms. Zhang Li's husband in 2012. Upon completion of the acquisition in June 2012, the Group holds a 100% equity interest in Kuba.

(iii) Deemed disposal of non-controlling interests in subsidiaries

On 25 May 2012, Huihai and Beijing GOME Ruidong e-Commerce Co., Ltd. ("GOME Ruidong"), of which Mr. Wong Kwong Yu ("Mr. Wong"), a shareholder of the Company, is the controlling shareholder of GOME Ruidong, entered into a subscription agreement (the "Subscription Agreement"), pursuant to which GOME Ruidong agreed to subscribe a 40% interest in the enlarged capital of each of Kuba and GOME-on-line for an aggregate consideration of RMB73,333,333. The capital injection was completed by GOME Ruidong in July 2012. The Group accounted for the change in ownership interest in Kuba and GOME-on-line that did not result in the Group losing control of these subsidiaries as an equity transaction.

34. 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 reserve 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.

34. RESERVES *(continued)*

(b) Company

	Notes	Share premium 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 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	*31(i)*	162,125	–	–	–	–	–	162,125
Repurchase of shares	*31(ii)*	(14,395)	–	–	–	–	–	(14,395)
Exercise of share options	32	181,383	–	–	(51,302)	–	–	130,081
Equity-settled share option arrangements	32	–	–	–	54,071	–	–	54,071
Dividends paid	35	–	–	–	–	–	(382,483)	(382,483)
At 31 December 2011 and 1 January 2012		**9,456,760**	**42,849**	**(657,232)**	**164,913**	**(49,695)**	**(207,516)**	**8,750,079**
Loss for the year and total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**(186,836)**	**(186,836)**
Redemption of the Old 2014 Convertible Bonds	*29(i)*	**–**	**–**	**(30,195)**	**–**	**–**	**–**	**(30,195)**
Redemption of the New 2014 Convertible Bonds	*29(ii)*	**–**	**–**	**(376,387)**	**–**	**–**	**–**	**(376,387)**
Exercise of share options	32	**3,280**	**–**	**–**	**(997)**	**–**	**–**	**2,283**
Equity-settled share option arrangements	32	**–**	**–**	**–**	**800**	**–**	**–**	**800**
At 31 December 2012		**9,460,040**	**42,849**	**(1,063,814)**	**164,716**	**(49,695)**	**(394,352)**	**8,159,744**

34. RESERVES *(continued)*

(b) Company *(continued)*

Notes:

(i) The loss attributable to owners of the parent company for the year ended 31 December 2012 dealt with in the financial statements of the Company was approximately RMB186,836,000 (2011: profit of RMB39,029,000).

(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.

35. 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

36. 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:

	2012	2011
	RMB'000	RMB'000
Within one year	**2,731,209**	2,892,751
In the second to fifth years, inclusive	**8,095,632**	8,946,024
After five years	**3,799,424**	4,792,357
	14,626,265	16,631,132

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.

36. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(continued)*

(a) Operating lease arrangements *(continued)*

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 15 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.

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2012	2011
	RMB'000	RMB'000
Within one year	**234,227**	217,362
In the second to fifth years, inclusive	**583,015**	581,229
After five years	**263,314**	315,916
	1,080,556	1,114,507

(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:

	2012	2011
	RMB'000	RMB'000
Contracted, but not provided for:		
Acquisition of buildings	**–**	78,414
Construction of property and equipment	**61,184**	40,624
	61,184	119,038

37. 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	**2012** RMB'000	2011 RMB'000
Sales to the Non-listed GOME Group*	*(i)*	**249,554**	792,869
Purchases from the Non-listed GOME Group	*(i)*	**(565,951)**	(66,996)
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)*	**(60,527)**	(48,483)
Service fee to GOME Ruidong	*(iv)*	**(2,559)**	–
Rental income from a related party	*(v)*	**274**	328

* 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, 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 a certain building area to Beijing Pengrun Property and also authorised Beijing Pengrun Property to manage and operate the building area, including receiving and collecting the rentals for this building area. Completion of registration of ownership assignment with the relevant PRC authorities is still pending.

37. 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.

On 17 December 2012, GOME Appliance, a subsidiary of the Company, and the Non-listed GOME Group entered into (1) a master purchase agreement (the "2012 Master Purchase Agreement") to renew the master purchase agreement reached on 17 March 2005 and supplemented by the first supplemental purchase agreement on 21 December 2007 and the second supplemental purchase agreement on 31 December 2010, pursuant to which the Non-listed GOME Group agreed to supply electrical appliances and consumer electronics products to the Group for a period of three years from 1 January 2013 to 31 December 2015, and (2) the 2012 master supply agreement (the "2012 Master Supply Agreement") to renew the master supply agreement reached on 17 March 2005 and supplemented by the first supplemental supply agreement on 21 December 2007 and the second supplemental supply agreement on 31 December 2010, pursuant to which the Group agreed to supply electrical appliances and consumer electronics products to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015.

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 provided and procured other members of the Group to provide management services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. In addition, Kunming Hengda Logistics Company Limited ("Kunming Hengda"), an indirect wholly-owned subsidiary of the Company, entered into a purchasing service agreement with the Non-listed GOME Group, pursuant to which Kunming Hengda provided and procured 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.

On 17 December 2012, (1) Jinan Wansheng Yuan, Tianjin Consultancy, Kunming Qinan and Lanzhou Henda Commercial Consultancy Company Limited ("Lanzhou Hengda"), all being indirect wholly-owned subsidiaries of the Company, entered into a management agreement with the Non-listed GOME Group, pursuant to which Jinan Wansheng Yuan, Tianjin Consultancy, Kunming Qinan and Lanzhou Hengda agreed to provide and to procure other members of the Group to provide management services for the business of retailing electrical appliances and consumer electronics products to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015; and (2) Kunming Hengda, Xining GOME, Tianjin Pengsheng Logisitics Company Limited ("Tianjin Pengsheng") and Kunming Logistics, all being indirect wholly-owned subsidiaries of the Company, entered into the 2012 purchasing service agreement with the Non-listed GOME Group, Nanning Gome Logistics Company Limited and Tianjin Gome Hengxin Logistics Company Limited, pursuant to which Kunming Hengda, Xining GOME, Tianjin Pengsheng and Kunming Logistics agreed to provide and to procure other members of the Group to provide purchasing services for the business of retailing electrical appliances and consumer electronics products to the Non-listed GOME Group for a period of three years from 1 January 2013 to 31 December 2015. The annual caps of the management service fee and the purchasing service fee is RMB100 million and RMB150 million.

The transactions constitute continuing connected transactions under the Listing Rules.

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) The Group had the following ongoing transactions with related parties during the year: *(continued)*

Notes: (continued)

(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, 2012 and new lease agreements were entered into among these parties on 17 December 2012 with respect to the continuous use by the Group of the related properties. The rental expenses incurred by the Group payable to Beijing Pengrun Property and Beijing Gome amounting to RMB46,073,000 (2011: RMB35,343,000) and RMB14,454,000 (2011: RMB13,140,000), respectively, for the year ended 31 December 2012.

The transactions constitute continuing connected transactions under the Listing Rules.

(iv) On 25 May 2012, GOME Ruidong entered into a master agreement (the "Master Agreement") with Kuba and GOME-on-line, pursuant to which GOME Ruidong will, or procure its nominee (being a member of the Non-listed GOME Group) to, (1) supply merchandise including the electrical appliances and consumer electronic products, and (2) provide (i) logistics and warehousing services and (ii) after-sales services to Kuba and GOME-on-line from time to time during the term of the Master Agreement.

The transactions constitute continuing connected transactions under the Listing Rules.

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

The transaction constitutes continuing connected transaction but is exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(b) Commitments with related parties

As disclosed in note 37(a)(iii), the Group has rental commitments with Beijing Xinhengji of RMB78,626,000 (2011: RMB35,717,000) under non-cancellable operating leases falling due within one year.

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

	2012	2011
	RMB'000	RMB'000
Fees	**4,099**	2,823
Other emoluments:		
Salaries, allowances, bonuses and other expense	**10,352**	37,961
Post-employment benefits	**203**	208
Equity-settled share option expense	**5,064**	10,965
	19,718	51,957

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

38. MAJOR NON-CASH TRANSACTION

The consideration to acquire a non-controlling interest in note 33(ii) of RMB12,000,000 was partially settled by offsetting against the Group's other receivables of RMB4,500,000 which did not result in cash flow.

39. CONTINGENCIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

Group

	31 December 2012 RMB'000	31 December 2011 RMB'000
Guarantees executed to banks in connection with bill facilities granted in favour of:		
Dazhong Appliances	**494,789**	475,548

(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").

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.

39. 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 is seeking orders that Mr. Wong, Ms. Du Juan and the two companies owned and controlled by them:

- 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

- 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.

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.

39. CONTINGENCIES *(continued)*

(b) Enforcement action by the Securities and Futures Commission *(continued)*

Court continues orders against Mr. Wong and his spouse *(continued)*
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.

40. 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

2012

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	124,200	124,200
Designated loan	3,600,000	–	3,600,000
Trade and bills receivables	194,746	–	194,746
Financial assets included in prepayments, deposits and other receivables	1,088,788	–	1,088,788
Due from related parties	101,539	–	101,539
Pledged deposits	6,019,027	–	6,019,027
Cash and cash equivalents	6,730,960	–	6,730,960
	17,735,060	124,200	17,859,260

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Interest-bearing bank loans	2,434,374	–	2,434,374
Trade and bills payables	16,971,671	–	16,971,671
Financial liabilities included in customers' deposits, other payables and accruals	813,341	–	813,341
Due to related parties	112,480	–	112,480
Derivative liability related to a cross currency swap	–	4,953	4,953
	20,331,866	4,953	20,336,819

40. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

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 loan	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
Convertible bonds	2,111,610
	20,040,612

40. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2012 **Loans and receivables** **RMB'000**	2011 Loans and receivables RMB'000
Investments in subsidiaries	**5,058,309**	5,116,220
Financial assets included in prepayments, deposits and other receivables	**1,192**	886
Cash and cash equivalents	**583,289**	776,635
	5,642,790	5,893,741

Financial liabilities

	2012			2011
	Financial liabilities at amortised cost **RMB'000**	**Financial liabilities at fair value through profit or loss** **RMB'000**	**Total** **RMB'000**	Financial liabilities at amortised cost RMB'000
Interest-bearing bank loans	**2,434,374**	**–**	**2,434,374**	–
Derivative liability related to a cross currency swap	**–**	**4,953**	**4,953**	–
Financial liabilities included in other payables and accruals	**7,280**	**–**	**7,280**	–
Convertible bonds	**–**	**–**	**–**	2,111,610
	2,441,654	**4,953**	**2,446,607**	2,111,610

41. 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	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Other investments	**124,200**	145,800	**124,200**	145,800
Designated loan	**3,600,000**	3,600,000	**3,600,000**	3,600,000
Trade and bills receivables	**194,746**	199,598	**194,746**	199,598
Financial assets included in prepayments, deposits and other receivables	**1,088,788**	2,212,458	**1,088,788**	2,212,458
Due from related parties	**101,539**	169,390	**101,539**	169,390
Pledged deposits	**6,019,027**	4,388,998	**6,019,027**	4,388,998
Cash and cash equivalents	**6,730,960**	5,971,498	**6,730,960**	5,971,498
	17,859,260	16,687,742	**17,859,260**	16,687,742
Financial liabilities				
Interest-bearing bank loans	**2,434,374**	–	**2,434,374**	–
Trade and bills payables	**16,971,671**	17,140,383	**16,971,671**	17,140,383
Financial liabilities included in customers' deposits, other payables and accruals	**813,341**	788,619	**813,341**	788,619
Due to related parties	**112,480**	–	**112,480**	–
Derivative liability related to a cross currency swap	**4,953**	–	**4,953**	–
Convertible bonds	**–**	2,111,610	**–**	2,668,669
	20,336,819	20,040,612	**20,336,819**	20,597,671

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

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Investments in subsidiaries	**5,058,309**	5,116,220	**5,058,309**	5,116,220
Financial assets included in prepayments, deposits and other receivables	**1,192**	886	**1,192**	886
Cash and cash equivalents	**583,289**	776,635	**583,289**	776,635
	5,642,790	5,893,741	**5,642,790**	5,893,741
Financial liabilities				
Interest-bearing bank loans	**2,434,374**	–	**2,434,374**	–
Derivative liability related to a cross currency swap	**4,953**	–	**4,953**	–
Financial liabilities included in other payables and accruals	**7,280**	–	**7,280**	–
Liability component of convertible bonds	**–**	2,111,610	**–**	2,668,669
	2,446,607	2,111,610	**2,446,607**	2,668,669

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 customers' deposits, other payables and accruals, amounts due from/to related parties, the designated loan and interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond. The fair values of other investments were based on market prices of the listed shares. The fair value of the derivative liability related to a cross currency swap was estimated using a valuation technique based on assumptions that are supported by unobservable market data. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

41. 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 2012

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Other investments:				
Equity investments	**124,200**	**–**	**–**	**124,200**

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

During the year ended 31 December 2012, there were no transfers into or out of Level 1 and Level 2, and no transfers into or out of Level 3.

Company

The Company did not have any financial assets measured at fair value as at 31 December 2012.

41. FAIR VALUE HIERARCHY *(continued)*

Assets measured at fair value: *(continued)*

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

Group and Company

	2012	2011
	RMB'000	RMB'000
Derivative component of convertible bonds		
At 1 January	**–**	7,349
Loss recognised in the income statement *(note 29(i))*	**–**	(7,349)
At 31 December	**–**	–

Liabilities measured at fair value:

As at 31 December 2012

Group and Company

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Derivative liability related to a cross currency swap	**–**	**–**	**4,953**	**4,953**

Other than disclosed above, the Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2012 (31 December 2011: Nil).

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

Group and Company

	2012	2011
	RMB'000	RMB'000
Derivative liability related to a cross currency swap		
At 1 January	**–**	–
Loss recognised in the income statement (note 30)	**4,953**	–
At 31 December	**4,953**	–

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2012, the Group had bank borrowings of RMB2,434,374,000 with floating interest rates (2011: Nil).

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate with all other variables held constant, of the Group's loss before tax (due to changes in finance costs).

	Increase/ (decrease) in interest rate	Increase/ (decrease) in loss before tax RMB'000
2012		
If interest rate increases by	**5%**	**2,058**
If interest rate decreases by	**(5%)**	**(2,058)**
2011		
If interest rate increases by	5%	–
If interest rate decreases by	(5%)	–

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

Foreign currency risk

As at 31 December 2012, the Group had cash and bank deposits of RMB557,559,000 (2011: RMB268,103,000), which were denominated in foreign currencies including USD and the Hong Kong dollar. The Group entered into a cross currency swap (note 30) during the year ended 31 December 2012 to manage its foreign currency risk and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should any more needs 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 loss or 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 loss before tax RMB'000**
2012		
If RMB weakens against USD	**5%**	**(100,865)**
If RMB strengthens against USD	**(5%)**	**100,865**
If RMB weakens against the Hong Kong dollar	**5%**	**7,030**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**(7,030)**

	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)

42. 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, 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 these 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 2012, the Group had trade and bills payables amounting to RMB16,971,671,000 (31 December 2011: RMB17,140,383,000). In addition, as at 31 December 2012, the Group had interest-bearing bank loans amounting to RMB2,434,374,000 (31 December 2011: Nil) 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.

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

Liquidity risk *(continued)*

Group

	2012		
	Within 1 year	**1 to 2 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Interest-bearing bank loans	**2,434,374**	**–**	**2,434,374**
Trade and bills payables	**16,971,671**	**–**	**16,971,671**
Financial liabilities included in customers' deposits and other payables	**813,341**	**–**	**813,341**
Due to related parties	**112,480**	**–**	**112,480**
Cross currency swap	**–**	**498,691**	**498,691**
Guarantees given to banks in connection with bill facilities granted in favour of Dazhong Appliances	**494,789**	**–**	**494,789**
	20,826,655	**498,691**	**21,325,346**

Group

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

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

Liquidity risk *(continued)*

Company

	2012		
	Within 1 year RMB'000	**1 to 2 years RMB'000**	**Total RMB'000**
Interest-bearing bank loans	**2,434,374**	**–**	**2,434,374**
Cross currency swap	**–**	**498,691**	**498,691**
Other payables	**7,280**	**–**	**7,280**
	2,441,654	**498,691**	**2,940,345**

Company

	2011 Within 1 year RMB'000
Convertible bonds	2,668,669
Other payables	2,554
	2,671,223

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 other investments (note 16) as at 31 December 2012. The Group's listed investments are valued at market price as at 31 December 2012 and 31 December 2011.

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

Equity price risk *(continued)*

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 2012	**High/low 2012**	31 December 2011	High/low 2011
Shanghai – A Share Index	**2,269**	**2,478/ 1,949**	2,199	3,067/ 2,134

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 statement.

	Carrying amount of equity investments RMB'000	**Increase/ decrease in profit/loss before tax RMB'000**	**Increase/ decrease in equity* RMB'000**
2012			
Investments listed in:			
Shanghai – Available-for-sale	**124,200**	**–**	**12,420**
2011			
Investments listed in:			
Shanghai – Available-for-sale	145,800	–	14,580

* Excluding retained earnings

42. 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 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 component 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:

	2012 **RMB'000**	2011 RMB'000
Interest-bearing bank loans	**2,434,374**	–
Due to related parties	**112,480**	–
Trade and bills payables	**16,971,671**	17,140,383
Customers' deposits, other payables and accruals	**1,631,309**	1,523,315
Less: Cash and cash equivalents	**(6,730,960)**	(5,971,498)
Pledged deposits	**(6,019,027)**	(4,388,998)
Net debt	**8,399,847**	8,303,202
Convertible bonds, the liability component	**–**	2,111,610
Equity attributable to owners of the parent company	**15,149,079**	15,948,763
Total capital	**15,149,079**	18,060,373
Capital and net debt	**23,548,926**	26,363,575
Gearing ratio	**36%**	31%

43. 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, GOME Ruidong and the Non-listed GOME Group to 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 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.

43. EVENTS AFTER THE REPORTING PERIOD *(continued)*

Rearrangement of certain agreements *(continued)*

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.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 25 March 2013.

CORPORATE INFORMATION

DIRECTORS

Executive Directors
NG Kin Wah
ZOU Xiao Chun

Non-executive Directors
ZHANG Da Zhong *(Chairman)*
ZHU Jia
WANG Li Hong
CHEUNG Leong

Independent Non-executive Directors
SZE Tsai Ping, Michael
CHAN Yuk Sang
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
26 Burnaby Street
Hamilton HM11
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

Unit 6101, The Center, 99 Queen's Road Central, Hong Kong
Tel : (852) 2122 9133 Fax : (852) 2122 9233 Website : www.gome.com.hk