GOME ELECTRICAL APPLIANCES HOLDING LIMITED
國美電器控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007

FINANCIAL HIGHLIGHTS

	1H 2007 *RMBm*	1H 2006 *RMBm*	Percentage change *(%)*
Revenue	**21,157**	12,168	73.9%
Gross Profit	**1,942**	1,156	68.0%
Net Profit attributable to Equity Holders of the Company	**395**	345	14.5%
Earnings Per Share			
– Basic	**RMB13 fen**	RMB19 fen	(31.6)%
– Diluted	**RMB13 fen**	RMB16 fen	(18.8)%
Earnings Per Share, excluding the (loss) gain on the derivative component of convertible bonds	**RMB26 fen**	RMB16 fen	62.5%

The board of directors of GOME Electrical Appliances Holding Limited (the "Company") announces the unaudited interim condensed consolidated financial report of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2007

		For the six-month period ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3(a)*	**21,157,226**	12,167,820
Cost of sales		**(19,215,392)**	(11,011,966)
Gross profit		**1,941,834**	1,155,854
Other income	*3(b)*	**1,214,483**	487,504
Selling and distribution costs		**(1,687,040)**	(942,405)
Administrative expenses		**(379,512)**	(208,705)
Other expenses		**(196,028)**	(59,652)
Finance costs	*6*	**(71,670)**	(27,661)
Finance income	*6*	**149,328**	66,333
(Loss)/gain on the derivative component of convertible bonds		**(410,640)**	54,237
Profit before tax	*5*	**560,755**	525,505
Tax	*7*	**(151,412)**	(58,663)
Profit for the period		**409,343**	466,842
Attributable to:			
Equity holders of the parent		**395,391**	344,531
Minority interests		**13,952**	122,311
		409,343	466,842
Dividend	*8*		
Interim		**254,193**	99,186
Interim dividend per share		**RMB7.8 fen**	RMB4.3 fen
Earnings per share attributable to ordinary equity holders of the parent	*9*		
– Basic		**RMB13 fen**	RMB19 fen
– Diluted		**RMB13 fen**	RMB16 fen

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Notes	**30 June 2007 (Unaudited) *RMB'000***	31 December 2006 (Audited) *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,500,510**	2,206,673
Investment properties		**6,041**	6,229
Goodwill		**3,302,584**	3,217,613
Other intangible assets		**147,803**	152,324
Other financial assets		**40,000**	–
Lease prepayments		**208,360**	61,157
Deferred tax assets		**87,549**	35,095
		6,292,847	5,679,091
Current assets			
Hong Kong listed investments, at fair value		**881**	908
Inventories		**4,691,560**	4,882,754
Trade and bills receivables	*10*	**79,464**	75,189
Prepayments, deposits and other receivables		**1,534,429**	1,298,232
Due from related parties		**79,739**	189,463
Other financial assets		**150,000**	150,000
Pledged deposits		**10,352,975**	7,448,755
Cash and cash equivalents		**7,267,794**	1,451,837
		24,156,842	15,497,138
TOTAL ASSETS		**30,449,689**	21,176,229
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		**338,040**	317,009
Reserves		**8,596,521**	4,724,479
Proposed dividend		**254,193**	110,118
		9,188,754	5,151,606
Minority interests		**63,113**	88,783
Total equity		**9,251,867**	5,240,389
Non-current liabilities			
Deferred tax liabilities		**68,952**	46,954
Convertible bonds	*11*	**3,659,969**	933,490
		3,728,921	980,444
Current liabilities			
Interest-bearing bank loans		**610,000**	729,330
Trade and bills payables	*12*	**15,155,784**	12,614,613
Customers' deposits, other payables and accruals		**1,410,980**	1,286,431
Due to a related party		**238**	120,564
Tax payable		**291,899**	204,458
		17,468,901	14,955,396
Total liabilities		**21,197,822**	15,935,840
TOTAL EQUITY AND LIABILITIES		**30,449,689**	21,176,229

NOTES

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 "SEHK"). The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The principal activity of the Company and its subsidiaries (the "Group") is the retailing of electrical appliances and consumer electronic products in designated cities within the People's Republic of China (the "PRC").

With effect from 30 November 2006, the Company acquired 2,315,123,465 shares, representing 98.24% of the issued shares, of China Paradise Electronics Retail Limited ("China Paradise"). The principal activity of China Paradise is the retailing of electrical appliances and consumer electronic products in the PRC.

The acquisition of the remaining 41,506,320 outstanding shares of China Paradise was completed on 30 January 2007 and the listing of the shares of China Paradise on the SEHK was withdrawn with effect from 31 January 2007.

2. BASIS OF PREPARATION AND IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Basis of preparation

The interim condensed consolidated financial report for the six-month period ended 30 June 2007 (the "Interim Condensed Consolidated Financial Report") has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The Interim Condensed Consolidated Financial Report does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2006.

The Company's functional currency was the Hong Kong dollars. Because of the magnitude of the Company's Renminbi denominated transactions and financing activities entered into during the current period, the directors determined to change the functional currency of the Company from Hong Kong dollar to Renminbi with effect from 1 January 2007. Management consider that the change of the Company's functional currency to Renminbi will present a more relevant and reliable financial information about the Group's transactions and results of operations. The effect of the change of the functional currency of the Company has been accounted for prospectively since 1 January 2007.

3. REVENUE AND OTHER INCOME

(a) Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The amount of significant category of revenue recognised during the period is as follows:

	For the six-month period ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Sale of electrical appliances and consumer electronic products	**21,157,226**	12,167,820

(b) Other income comprises the following:

		For the six-month period ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Note	***RMB'000***	*RMB'000*
Income from suppliers		**985,375**	331,699
Management fee from the Parent Group		**124,003**	102,127
Management fees for air-conditioner installation		**44,478**	22,486
Government grants	*(i)*	**20,417**	12,849
Other income		**40,210**	18,343
		1,214,483	487,504

Note:

(i) Various local government grants have been received to reward the Group's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

4. SEGMENT INFORMATION

Over 90% of the Group's turnover and contribution to the operating profit is attributable to the retailing of electrical appliances and consumer electronic products. Over 90% of the Group's turnover and contribution to the operating profit is attributable to customers in the PRC and over 90% of the Group's assets are located in the PRC. Accordingly, no analysis of segment information is presented.

5. PROFIT BEFORE TAX

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

		For the six-month period ended 30 June	
		2007	2006
	Notes	**(Unaudited)**	(Unaudited)
		RMB'000	*RMB'000*
Cost of inventories sold		**19,215,392**	11,011,966
Depreciation		**132,134**	49,666
Amortisation of lease prepayments		**4,584**	–
Amortisation of intangible assets		**4,521**	1,295
Loss on disposal of items of property, plant and equipment		**4,577**	–
Minimum lease payments under operating leases in respect of land and buildings		**757,935**	372,951
Gross rental income in respect of investment properties		**254**	–
Loss/(gain) on the derivative component of convertible bonds:			
– 2011 Convertible Bonds	*11(i)*	**406,940**	(54,237)
– 2014 Convertible Bonds	*11(ii)*	**3,700**	–
		410,640	(54,237)
Transaction costs related to derivative component of convertible bonds		**–**	2,731
Net exchange loss		**35,477**	2,004
Write-down of inventories to net realisable value		**28,800**	–
Allowance for doubtful debts		**36,785**	–
Compensation for early termination of operating leases		**25,679**	–
Auditors' remuneration		**2,309**	1,962
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		**428,780**	256,389
Pension scheme contributions		**63,069**	33,264
Social welfare and other costs		**59,894**	26,233
		551,743	315,886

6. FINANCE (COSTS)/INCOME

	For the six-month period ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Finance costs:		
Interest on interest-bearing short term bank loans	**(15,355)**	–
Interest expenses on the convertible bonds	**(56,315)**	(27,661)
	(71,670)	(27,661)
Finance income:		
Bank interest income	**149,328**	53,957
Other interest income	**–**	12,376
	149,328	66,333

7. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 33% on their respective taxable income. During the period, 19 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.

No provision for the Hong Kong profits tax has been made for the six-month period ended 30 June 2007 as the Group had no assessable profits arising in Hong Kong for the period. The provision for Hong Kong profits tax for the six-month period ended 30 June 2006 was calculated at 17.5% of the estimated assessable profit.

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current income tax:		
Hong Kong	**–**	4,651
PRC	**181,867**	53,480
Deferred income tax	**(30,455)**	532
	151,412	58,663

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will be effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to the domestic companies from 1 January 2008 will be decreased from 33% to 25% or progressively increased from 15% to 25% within 5 years. This unification in the corporate income tax rate will directly reduce or increase the Group's effective tax rate prospectively from 2008. According to IAS 12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, the Company estimates that the change in the corporate income tax rate has had the following impact on the results and financial position of the Group for the six-month ended 30 June 2007:

	For the six-month period ended 30 June 2007 (Unaudited) *RMB'000*
Decrease in deferred tax assets	4,008
Increase in deferred tax liabilities	21,998
Increase in income tax expenses	26,006

At the date of approval of the Interim Condensed Consolidated Financial Report, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial position of future periods as more detailed requirements are issued.

8. DIVIDENDS

	For the six-month period ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Declared and paid during the period		
Equity dividends on ordinary shares:		
Final dividend per share for 2006: RMB3.6 fen (equivalent to HK3.6 cents) (2005: RMB4.5 fen (equivalent to HK4.3 cents))	**110,118**	73,450
Proposed (not recognised as a liability as at 30 June)		
Interim dividend per share for 2007: RMB7.8 fen (equivalent to HK8.1 cents) (2006: RMB4.3 fen (equivalent to HK4.2 cents))	**254,193**	99,186

The proposal interim dividend for the year (not recognised as liability as at 30 June) is subject to the approval of the Company's shareholders at the forthcoming interim general meeting.

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

The basic earnings per share amount is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share amount for the period is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent, (adjusted to add the interest on convertible bonds and deduct the fair value gain on the derivative component of convertible bonds) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

		For the six-month period ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Earnings			
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation		**395,391**	344,531
Interest expenses on convertible bonds	*(ii)*	**–**	27,661
Fair value gain on the derivative component of convertible bonds	*(ii)*	**–**	(54,237)
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds		**395,391**	317,955

		Number of shares for the six-month period ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
		'000	*'000*
Weighted average number of ordinary shares for basic earnings per share		**3,103,486**	1,832,880
Effect of dilution			
Convertible bonds	*(ii)*	**–**	102,114
Warrants	*(iii)*	**5,829**	–
Weighted average number of ordinary shares adjusted for the effect of dilution		**3,109,315**	1,934,994

Note:

(i) There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the Interim Condensed Consolidated Financial Report.

(ii) The 2011 Convertible Bonds and 2014 Convertible Bonds are anti-dilutive and are ignored in the calculation of diluted earnings per share for the six-month period ended at 30 June 2007.

(iii) On 1 March 2006, the Company issued warrants at a subscription price of US$3,000,000 to a subscriber. The subscriber is entitled to subscribe for in aggregate a maximum amount of US$25 million new shares of the Company at an exercise price of HK$7.70 per share during an exercise period of five years commencing from 1 March 2006.

None of the warrants were exercised during the six-month period ended 30 June 2006 and 2007.

During the period ended 30 June 2006, the average market price of the Company's shares was less than the exercise price of the warrants and therefore the warrants had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share.

10. TRADE AND BILLS RECEIVABLES

The balance of trade and bills receivables as at 30 June 2007 included receivables from Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong") of approximately RMB38,358,000 which arose from the acquisition of China Paradise in 2006. The recovery of the amount can only proceed when the arbitration by the China International Economic and Trade Arbitration Commission (the "CIETAC") is completed. Other than the balance due from Beijing Dazhong, management consider that there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, and net of provision for impairment of trade receivables, is as follows:

	30 June 2007 (Unaudited) ***RMB'000***	31 December 2006 (Audited) *RMB'000*
Outstanding balances, aged:		
Within 3 months	**41,106**	21,885
3 to 6 months	**–**	47,664
6 months to 1 year	**35,568**	3,727
Over 1 year	**2,790**	1,913
	79,464	75,189

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

11. CONVERTIBLE BONDS

	Notes	**30 June 2007 (Unaudited) *RMB'000***	31 December 2006 (Audited) *RMB'000*
Liability component:			
2011 Convertible Bonds	*(i)*	**296,333**	726,703
2014 Convertible Bonds	*(ii)*	**3,278,410**	–
		3,574,743	726,703
Derivative component:			
2011 Convertible Bonds	*(i)*	**225,126**	206,787
2014 Convertible Bonds	*(ii)*	**(139,900)**	–
		85,226	206,787
		3,659,969	933,490

(i) US$125 million unlisted and unsecured convertible bonds due in 2011 (the "2011 Convertible Bonds")

On 28 January 2006, the Company and a wholly owned subsidiary of Warburg Princus Private Equity IX, L.P. (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement") in relation to the issuance of US$125 million unlisted and unsecured convertible bonds due in 2011 and warrants to subscribe in aggregate for a maximum amount of US$25 million new shares of the Company to the Subscriber.

Pursuant to the Subscription Agreement, the 2011 Convertible Bonds are:

(a) convertible at the option of the bondholders into fully paid ordinary shares on or after 1 September 2006 and up to and including 7 February 2011 at a conversion price of US$0.8251 per share;

(b) redeemable at the option of the bondholders at 105.49% of their principal amount on the third anniversary of the issue date; and

(c) convertible at the option of the Company to request the bondholders for mandatory conversion of the prescribed amount of the convertible bonds on or after the third anniversary of the issue date.

The 2011 Convertible Bonds bear interest at the rate of 1.5% per annum on the principal amount of the bonds outstanding. The interest will be payable by the Company semi-annually in arrears. The 2011 Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued; and (3) a premium calculated at 9.48% on the principal amount.

The 2011 Convertible Bonds are denominated in US$, which is different from the functional currency of the bond issuing entity. As such, the exercise of conversion option would not result in settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company. The embedded derivative of conversion option is therefore accounted for as a financial liability. The proceeds from the issuance of the 2011 Convertible Bonds on 1 March 2006 of US$125 million (approximately equivalent to RMB999,950,000) have been split into liability and derivative components. On issuance of the convertible bonds, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative component of the liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issue date and any subsequent changes in fair value of the derivative component as at the balance sheet date are recognised in the consolidated income statement.

The fair values of the derivative component are determined based on the valuations performed by Vigers Appraisal & Consulting Limited ("Vigers") using the applicable option pricing model. Changes in fair value of that component between the issue date and the measurement date are recognised in the consolidated income statement.

On 18 May 2007, the 2011 Convertible Bonds with a principal amount of US$75 million were converted into 90,898,072 new ordinary shares of the Company. After the conversion, US$50 million of the 2011 Convertible Bonds remained outstanding as at 30 June 2007.

The movements of the liability component and derivative component of the convertible bonds during the six-month period ended 30 June 2007 are as follows:

	Liability component of convertible bonds	**Derivative component of convertible bonds**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2007	726,703	206,787	933,490
Interest expenses	33,875	–	33,875
Interest paid	(7,265)	–	(7,265)
Fair value adjustment	–	406,940	406,940
Conversion into ordinary shares	(449,653)	(386,849)	(836,502)
Exchange rate differences	(7,327)	(1,752)	(9,079)
At 30 June 2007 (unaudited)	296,333	225,126	521,459

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

On 11 May 2007, the Company entered into the bond subscription agreement (the "Bond Subscription Agreement") with Goldman Sachs (Asia) L.L.C ("Goldman Sachs") to issue the 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 2014 Convertible Bonds are:

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

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

(c) redeemable at the option of the Company at cap price of 130% of the early redemption amount at anytime from 18 May 2010 to 18 May 2014, providing the prices of the Company's shares for 20 consecutive trading days is over 130% of the early redemption price.

The 2014 Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued; and (3) a premium calculated at 5.38% of the principal amount.

The 2014 Convertible Bonds are denominated in RMB which is the same as the functional currency of the bond issuing entity. The exercise of conversion option will give rise to the settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company. The conversion option is therefore accounted for as an equity instrument and is determined after deducting the liability component from the total proceeds. The value of the embedded derivatives which are not closely related to the host contract shall be separately measured and included in the liability component. The Company determined the fair value of the liability component based on the valuations performed by Vigers using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the derivate component is determined based on the valuations performed by Vigers using an option price model. The effective interest rate is determined to be 5.85%. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve as at 30 June 2007.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The derivate component of the convertible bond is subsequently measured at fair value with changes recognised in the income statement. The value of the equity component is not remeasured in subsequent years.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

The movements of the liability component, derivative component and equity component of the 2014 Convertible Bonds for the period from the issue date to 30 June 2007 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*
Principal amount of convertible bonds issued	3,305,362	(143,600)	1,438,238	4,600,000
Transaction costs	(49,392)	–	(22,468)	(71,860)
Interest expenses	22,440	–	–	22,440
Fair value adjustment	–	3,700	–	3,700
At 30 June 2007 (unaudited)	3,278,410	(139,900)	1,415,770	4,554,280

12. TRADE AND BILLS PAYABLES

	30 June 2007 (Unaudited) ***RMB'000***	31 December 2006 (Audited) *RMB'000*
Outstanding balances, aged:		
Within 3 months	**9,527,024**	7,059,361
3 to 6 months	**5,105,359**	5,244,494
Over 6 months	**523,401**	310,758
	15,155,784	12,614,613

The Group's bills payable are secured by:

(i) the pledge of the Group's time deposits amounting to RMB7,640,562,000 (31 December 2006: RMB6,168,895,000);

(ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits amounting to RMB2,712,413,000 (31 December 2006: RMB1,279,860,000);

(iii) the pledge of certain of the Group's buildings with an aggregate net book value of approximately RMB629,430,000 (31 December 2006: RMB241,063,000);

(iv) the pledge of certain of the Group's inventories amounting to RMB703 million (31 December 2006: RMB700 million); and

(v) the corporate guarantees provided by the Parent Group and Beijing Xinhengji as at 30 June 2007.

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

13. POST BALANCE SHEET EVENT

The Group did not have any significant events taking place subsequent to 30 June 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

1. BUSINESS SUMMARY

In 2007, the Group continued to develop its network operations and further restructured the overlapping sales points of Gome Appliances and China Paradise in some areas, so as to maintain an absolute competitive advantage in individual regions. Besides, the Group also focused on raising the profitability of individual stores and strengthening the management of the flagship stores. As a result, the Group achieved satisfactory operational results.

In the first six months of 2007, the Group achieved a total revenue of RMB21,157 million, an increase of 73.9% over the corresponding period last year. Profit attributable to equity holders of the Company was RMB395 million, an increase of 14.5% over the corresponding period last year including a loss of RMB411 million (a gain of RMB54 million in the corresponding period last year) arising from fair value adjustment on the derivative component of convertible bonds). During the period, the Group entered into 8 new cities, and set up 67 new stores. As at 30 June 2007, the Group operated a retail network of 654 stores, covering 168 cities. Five new flagship stores were set up while the reformed flagship stores amounted to 33. The Gross business area was 2.45 million square meters, representing an increase of 10.5% compared to the end of last year.

In May 2007, the Group raised capital with a net amount of RMB5,960 million through placing shares and issuing convertible bonds. The proceeds would mainly be used for improving liquidity and operations.

During the reporting period, the Group established a call centre at the headquarters according to its plan. The call centre was put into use on 28 May 2007 and served all stores nationwide. At the same time, the Group set new service standards and leveraged on its customer relationship management (CRM) system to optimise management on consumer database.

During the reporting period, the Group continued to expand the “household appliances hospital” maintainance system and speed up the implementation of warranty extension program. These value-added services have resulted in increased customer satisfaction. The Group also further improved the membership program by focusing on mid-to-high end customers to promote customer loyalty.

2. BUSINESS REVIEW

2.1 Development of retail network

During the reporting period, the Group continued to develop its chained retail network, which covered 168 cities throughout the nation, including Beijing, Shanghai, Tianjin, Chongqin and Guangzhou. The Group has established its presence in 27 first-tier cities with a total of 420 stores and 141 second-tier cities with a total of 234 stores.

2.2 Categorization of stores

During the reporting period, the Group categorized its 654 stores into flagship stores, standard stores, supermarket stores and specialised stores according to the different levels of economic development and spending power in different regions. The Group also applied different operational strategies to different types of stores so as to improve stores quality and customer satisfaction.

2.3 Store leases

During the reporting period, the Group had a total of 637 leased stores. The average remaining leasing period was 6.2 years. The Group's rental expenses as a percentage of sales revenue was approximately 3.5%, whereas the percentage was 3.0% and 3.5% respectively for the interim period of 2006 and the full year of 2006. Rental expenses remained relatively stable.

The management believes that, as there is an upward trend in the Chinese real estate market in the recent two years, increase in rental expenses is inevitable. However, as the Group has signed long-term contracts with the property owners of the leased stores, the change in rental expenses and leasing periods can be contained.

2.4 Acquiring quality properties

During the reporting period, the Group newly acquired property ownership of two stores located in the core business area of Fuzhou and Wuxi, respectively. As at 30 June 2007, the Group owned 17 stores properties. The Group may continue to selecively acquire other stores which are deemed to have strategic value.

The management believes that, all properties acquired by the Group are situated in the central business areas with strategic value. Through the acquisition of these properties, the Group could alleviate the impact of rental fluctuation and enhance the competitveness of the Group. On the other hand, the management also believes that the Group will continue to focus on its chained retail business and exercise cautious control on acquiring properties so as to avoid investing too much on properties.

2.5 Raising the operating quality of stores

The Group will enhance its operational quality through the strengthening of management control, adoption of comprehensive service standards, categorising the stores to suit the market demand and introducing value-added services.

Through training and motivating the staff with the Group's customer-oriented service philosophy, the serving quality of the staff could be enhanced. By renovation of our stores, improvement of the store display and environment, the Group will lift the image of the stores. This provides a more comfortable shopping environments to the customers and in return, customers will have higher loyalty and satisfaction towards the Group.

2.6 Progress of important events

2.6.1 Establishment of a call centre

During the reporting period, the Group set up a call centre in the headquarters according to its plan. The call centre reflected the Group's "Serving Customers with Our Heartfelt Service" philosophy and is the Group's commitment to improving customer service quality and value-added services.

The call centre used the speech navigation system to provide various services for users throughout the nation. These services included: answering enquiries on product delivery and installation, and promotional activities throughout the nation, processing extension of warranty service and answering complaints.

The call centre leveraged the CRM system and established a customer information database. It standardised the handling procedures of customer complaints, membership management and revisits of customers, so that a holistic customer service system was formed.

2.6.2 Extension of Warranty Service

During the reporting period, the Group rolled out the extension of warranty service. The Group collaborated with professional institutions to allow customers to pay a small fee at purchase to extend product warranty.

The Group's warranty extension service has been expanded from telecommunication products to include all types of products. At present, the provision of extended warranty service is mainly in first-tier cities, but will gradually be introduced into second-tier cities.

2.6.3 Household Appliances Hospital Maintenance System

During the reporting period, the Group continued to establish the household appliances hospital maintenance system and has increased the maintenance points for its customers. At the end of the reporting period, the Group has established a total of 29 household appliances hospitals and contracted over 1,000 maintenance points. Through the household appliances hospital maintenance system, the Group provided after-sale service for most of products and strengthened the value-added services.

2.6.4 Membership System

During the reporting period, the Group continued to promote its membership. At the end of the period, the total number of members reached 9 million. Members' spending accounted for over 50% of the Group's turnover, while the rate of second-time shopping reached 33%.

In the second half of the year 2007, the Group will utilise its customer database to launch promotional activities targeting high-spending customers. Through collaboration with other industries, the Group will continue to promote repeated spending among the high-spending customers.

2.6.5 Logistic Investment Project

During the reporting period, the Group continued to establish the logistic and distribution center in Qingpu of Shanghai region according to its plan. It is expected that the centre will commence operation this year.

3. PLACEMENT OF SHARES AND ISSUE OF CONVERTIBLE BONDS

In May 2007, the Group raised capital with a net amount of RMB5,960 million through placing shares and issuing convertible bonds to the market. The proceeds would mainly be used for improving liquidity and operations.

4. FINANCIAL ANALYSIS

4.1 Financial performance

4.1.1 Revenue

During the period, the Group's revenue reached RMB21,157 million, compared to RMB12,168 million in the corresponding period last year, representing an increase of 73.9%. During the period, there were 236 which were qualified as comparable stores for calculating the store sales. The above mentioned stores had accounted for an increase of 0.6% in sales as compared to the first half of 2006.

At the end of the period, the Group had a total of 654 stores whereas there were 338 stores in the corresponding period. The Group's weighted average sales area for this period was 2.36 million square meters as compared to 1.19 million square meters in the corresponding period last year. On annualized basis, sales per square meter for the period was RMB18,000, which was a decline of 11.8% compared to RMB20,400 of the corresponding period last year. However, it represented an increase of 9.8% compared to RMB16,400 of the second half of the year 2006.

The management believes that, the decline for the sales per square meter is attributable to highly concentrated stores and an increase in the proportion of stores which were in their infancy stage. As the Group implemented improvement measures to enhance store management, the trend for the sharp decrease in sales per square meter has slowered and has gradually improved the situation.

The management also believes that, from the composition of sales for various products, sales of traditional audio visual products, refrigerators and washing machines and air-conditioners still account for the majority of the sales, especially in second-tier cities where the consumption is mainly for traditional household appliances with enormous growing potential. With the fast growing economy of China, markets for telecommunications, digital and computer products are expected to be growing quickly.

4.1.2 Cost of Sales and Gross Profit

During the reporting period, the Group recorded RMB19,215 million of cost of sales, compared to RMB11,012 million in the corresponding period in 2006. During the reporting period, the Group's gross profit was RMB1,942 million, while that for the corresponding period last year was RMB1,156 million. Gross profit margin has been slightly dropped from 9.5% in the corresponding period in 2006 to the reporting period of approximately 9.2%.

The relatively low gross profit margin during the reporting period was due to the implementation of the policy signing contracts with the Group's supplier in 2007, which has caused a change in the revenue structure.

4.1.3 Other Income

Other income of the Group mainly comes from the suppliers which accounted for 81% of other income for the reporting period. With the implementation of the policy of signing contracts with suppliers, the Group's income from suppliers accounts for 4.7%, which is significantly increased compared to 2.7% of the corresponding period last year.

Besides, other income also includes management fee received the Parent Group for its provision of management and purchasing service in designated cities in China for the Parent Group. Such income as a percentage to sales in this period significantly decreased when compared with that in the corresponding period last year.

4.1.4 Adjusted gross margin

During the reporting period, the Group's adjusted gross margin for sales reached 14.9%, which was an increased by 1.4% compared to 13.5% of the corresponding period last year.

Adjusted gross margin = (Gross profit + other income) / Sales

The increase in the Group's adjusted gross margin reflects the economies of scale and improved operating efficiency after the merger with China Paradise.

4.1.5 Operating expenses

The Group's operating expenses mainly includes selling and distribution costs, administrative expenses and other operating expenses. As a percentage of revenue, operating expenses slightly increased from 10.0% to 10.7% in the current period.

4.1.6 Finance income, net

The net finance income of the Group was approximately RMB78 million and RMB39 million during the reporting period and in the corresponding period in 2006 respectively.

4.1.7 Loss on the derivative component convertible bonds

During the reporting period, as there was a rise in the Company's stock price, and Warburg Pincus Private Equity IX, L.P. (Warburg Pincus) converted part of the convertible bonds into stock, there was a loss of on the derivative component of convertible bonds during the reporting period of RMB411 million, whereas for the corresponding period last year was a gain of RMB54 million.

The management believes that, this loss was only a loss on the book and was not an expense from daily operation and did not require actual payment.

4.1.8 Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB561 million, as compared to RMB526 million in the corresponding period last year.

4.1.9 Income tax

Income tax incurred by the Group was RMB151 million and RMB59 million in the reporting period and in the corresponding period in 2006 respectively.

4.1.10 Profit attributable to equity holders of the Company

During the period and in the corresponding period last year, profit attributable to equity holders was RMB395 million and RMB345 million respectively. Accordingly, basic EPS of the Company was RMB13 fen in the period, as compared to RMB19 fen in the corresponding period of 2006. Excluding the (loss) gain on the derivative component of convertible bonds, net profit attributable to equity holders of the Company amounted to RMB806 million (2006: RMB290 million).

4.2 Financial resources

4.2.1 Cash and cash equivalents

At the end of the reporting period, the Group's cash and cash equivalents were RMB7,268 million, as compared to RMB1,452 million at 31 December 2006. The significant increase in cash and cash equivalents in the period was mainly due to cash proceeds from placing of shares and issuing convertible bonds by the Company in May 2007.

4.2.2 Inventory

At the end of the reporting period, the Group's inventory amounted to RMB4,692 million, as compared to RMB 4,883 million at 31 December 2006. The decrease in inventory was mainly due to seasonal factors.

4.2.3 Prepayment and other receivables

At the end of the reporting period, prepayment and other receivables of the Group amounted to RMB1,534 million, as compared to RMB1,298 million at 31 December 2006.

4.2.4 Trade payables and bills payables

At the end of the reporting period, trade payables and bills payables of the Group amounted to RMB15,156 million, as compared to RMB12,615 million at the end of 2006. The turnover days of trade payables and bill payable were 130 days for the reporting period, slightly shorter than the 135 days in 2006.

4.2.5 Indebtedness and leverage

At 30 June 2007, the Group's debt to equity ratio, expressed as a percentage of interest bearing external borrowings over owners' equity was 46%, slightly higher than 32% at 31 December 2006.

4.2.6 Capital expenditures

During the reporting period and the corresponding period in 2006, the Group invested RMB415 million and RMB181 million respectively for the expansion of retail stores network. The growth in capital expenditure was mainly due to the acquisition of properties by the Group.

4.2.7 Cash flow

During the reporting period and the corresponding period in 2006, net cash inflow from operating activities amounted to approximately RMB532 million and RMB1,211 million respectively. The decrease in cash inflow from operating activities was mainly due to the increase in pledged deposit by the Group in June 2007 for bank facilities, while the majority of the aforesaid facilities has not been utilised yet.

Net cash inflow from financing activities of the Group during the reporting period amounted to RMB5,818 million, whereas the corresponding period in 2006 was RMB1,013 million. The large increase for the cash flow from financing activities during the reporting period was because of the large amount of cash received from placing of shares and issuing of convertible bonds by the Group in May 2007.

4.2.8 Pledge of assets

As of 30 June 2007, the Group had pledged deposits amounting to RMB10,353 million and had pledged properties of RMB714 million and had pledged inventories amounting to RMB703 million.

4.3 Foreign currencies and treasury policy

All of the Group's revenues and most of its expenses are denominated in RMB. The Group does not believe that it currently has any significant direct foreign exchange risk in its business. However, as a result of the issuance of convertible bonds to Warburg Pincus, which are denominated in US$, in which there was a remaining balance at the end of the reporting period, the Group does have exposure to foreign exchange risk on its financial liabilities. Should US$ strengthen relative to HK$ or RMB, the Group's financial liability associated with the convertible bonds, if left unconverted into the Company's common shares, will increase. The Group has not hedged such exposure but may consider doing so in the future. It is the Group's treasury policy to manage its foreign currency exposure, if any, only when its potential financial impact is material to the Group.

Management of the Group estimates that currently less than 10% of the Group's purchases are imported products. Those products are indirectly purchased from Chinese distributors with the transactions denominated in RMB.

4.4 Human resources

As at 30 June 2007, the total number of employees of the Group was over 38,000, whereas that for the corresponding period last year was 25,000.

5. OUTLOOK

As at the reporting period, the Group has completed the integration with China Paradise in procurement, finance, information system and human resources. The new management team has been working on implementing operational plans, enhancing store display and controlling costs. In terms of market share, the integrated entity of GOME Appliance and China Paradise occupied a leading position in most of the cities in China. At the same time, due to the economies of scale after integration, procurement, storage and distribution, and administration costs were reduced. The Group believes that its competitive advantage and synergy of the merger will continue to realise with further integration on all fronts.

In terms of operation strategy, the Group has slowed down the opening of new stores and focused on improving the profitability of individual stores. The Group aims at meeting the demand of different market segments with categorized stores. It also aims at raising customer satisfaction and loyalty through improving shopping environment and service standard and continuously expanding the household appliances hospitals and the call centre, promoting extension of warranty service and raising the rate of repeated shopping of customers.

Looking forward, rapid growth in China's economy and improvement in living standard will continue to fuel the robust growth of the electronic appliances and consuming electronic retail industry. The specialized chained retail network of the Group, complemented by that of the Parent Group, will be further extended and improved with increasing market share. The Group will strive to increase its market share to above 20% in five years. The Group will further consolidate and strengthen its leading position and competitive advantages in the electronic appliances and consuming electronic retail industry in China and become a supreme and competitive brand internationally.

INTERIM DIVIDENDS

At a meeting held on 23 August 2007, the Board of Directors has declared to pay an interim dividend of RMB7.8 fen (equivalent to approximately HK 8.1 cents) (six months ended 30 June 2006: RMB4.3 fen (equivalent to approximately HK 4.2 cents)) per share of the Company for the six months ended 30 June 2007. The interim dividend will be paid on 21 September 2007 to those shareholders whose names appear on the Register of Members of the Company on 14 September 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 12 September 2007 to 14 September 2007, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Abacus Share Registrars Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong no later than 4:00 p.m. on 11 September 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2007, the Company had not redeemed and neither the Company nor any of its subsidiaries has purchased, sold any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the six months ended 30 June 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standard set out in the Code throughout the period under review.

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee, comprising the four independent non-executive directors of the Company, has reviewed and discussed with the management the Company's unaudited interim condensed consolidated financial report for the six months ended 30 June 2007 which has been reviewed by Ernst & Young, the external auditors, and the internal control and financial reporting matters.

APPRECIATION

On behalf of the Board of Directors, I wish to thank our shareholders, customers, suppliers, bankers and professionals for their support to the Company and to extend my appreciation to all staff members for their dedication and contribution throughout the period.

By order of the Board
GOME Electrical Appliances Holding Limited
NG Kin Wah
Executive Director

Hong Kong, 23 August 2007

As at the date of this announcement, the executive directors of the Company are Mr. Wong Kwong Yu, Ms. Du Juan, Mr. Ng Kin Wah and Mr. Chen Xiao; the non-executive director of the Company is Mr. Sun Qiang Chang; and the independent non-executive directors of the Company are Mr. Michael Sze Tsai Ping, Mr. Chan Yuk Sang, Mr. Mark C. Greaves, Dr Liu Peng Hui, Mr. Yu Tung Ho and Mr. Thomas Joseph Manning.

* *For identification purpose only*