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-MONTH PERIOD ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

	First half of 2011 *RMBm*	First half of 2010 *RMBm*
Revenue	**29,806**	24,873
Gross profit	**3,729**	2,674
Consolidated gross profit margin*	**18.34%**	17.04%
Profit from operating activities	**1,597**	1,249
Profit attributable to owners of the parent company	**1,252**	962
Earnings per share		
– Basic	**RMB7.4 fen**	RMB6.4 fen
– Diluted	**RMB7.4 fen**	RMB5.8 fen
Interim dividend per share	**RMB2.2 fen**	–

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

The board of directors (the "Board") of GOME Electrical Appliances Holding Limited (the "Company") announces the unaudited interim financial information of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2011

		For the six-month period ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**29,805,550**	24,873,283
Cost of sales		**(26,076,876)**	(22,199,502)
Gross profit		**3,728,674**	2,673,781
Other income and gains	*4*	**1,737,076**	1,564,031
Selling and distribution costs		**(3,085,535)**	(2,350,793)
Administrative expenses		**(575,847)**	(457,068)
Other expenses		**(207,123)**	(180,558)
Profit from operating activities		**1,597,245**	1,249,393
Finance costs	*6*	**(118,727)**	(271,707)
Finance income	*6*	**188,148**	167,871
Loss on the derivative component of convertible bonds	*12(i)*	**(233)**	(92,351)
Gain on redemption of convertible bonds		**–**	202,578
PROFIT BEFORE TAX	*5*	**1,666,433**	1,255,784
Income tax expense	*7*	**(421,779)**	(293,458)
PROFIT FOR THE PERIOD		**1,244,654**	962,326
Attributable to:			
Owners of the parent company		**1,251,849**	962,326
Non-controlling interests		**(7,195)**	–
		1,244,654	962,326
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	*8*		
– Basic		**RMB7.4 fen**	RMB6.4 fen
– Diluted		**RMB7.4 fen**	RMB5.8 fen

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six-month period ended 30 June 2011

	For the six-month period ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**1,244,654**	962,326
OTHER COMPREHENSIVE INCOME/(LOSS)		
Changes in fair value of other investments	**35,438**	(25,650)
Exchange differences on translation of foreign operations	**25,490**	161
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**60,928**	(25,489)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**1,305,582**	936,837
Attributable to:		
Owners of the parent company	**1,312,777**	936,837
Non-controlling interests	**(7,195)**	–
	1,305,582	936,837

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

	Notes	**30 June 2011 (Unaudited) *RMB'000***	31 December 2010 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**3,735,320**	3,556,163
Investment properties		**833,440**	830,611
Goodwill		**4,030,771**	4,014,981
Other intangible assets		**113,271**	116,157
Other investments		**163,148**	127,710
Long term lease prepayments		**392,775**	387,784
Deferred tax assets		**38,405**	39,513
Designated loans	*9*	**3,600,000**	3,648,000
Total non-current assets		**12,907,130**	12,720,919
CURRENT ASSETS			
Financial asset at fair value through profit or loss		**200,000**	–
Inventories		**8,521,108**	8,084,971
Trade and bills receivables	*10*	**148,353**	206,102
Prepayments, deposits and other receivables		**2,405,538**	2,446,051
Due from related parties		**117,259**	251,290
Derivative component of convertible bonds	*12*	**7,116**	7,349
Pledged deposits		**6,235,256**	6,268,130
Cash and cash equivalents		**8,398,193**	6,232,450
Total current assets		**26,032,823**	23,496,343
CURRENT LIABILITIES			
Interest-bearing bank loan		**100,000**	100,000
Trade and bills payables	*11*	**18,473,934**	16,899,683
Customers' deposits, other payables and accruals		**1,975,338**	1,819,999
Due to related parties		**11,101**	97,826
Convertible bonds	*12*	**133,663**	129,976
Tax payable		**535,401**	509,374
Total current liabilities		**21,229,437**	19,556,858

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2011

	Notes	**30 June 2011 (Unaudited) *RMB'000***	31 December 2010 (Audited) *RMB'000*
NET CURRENT ASSETS		**4,803,386**	3,939,485
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,710,516**	16,660,404
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**92,741**	111,148
Convertible bonds	*12*	**1,890,769**	1,814,069
Total non-current liabilities		**1,983,510**	1,925,217
Net assets		**15,727,006**	14,735,187
EQUITY			
Equity attributable to owners of the parent company			
Issued capital		**421,035**	417,666
Reserves		**15,305,114**	13,735,246
Proposed final dividend	*13*	**–**	582,275
		15,726,149	14,735,187
Non-controlling interests		**857**	–
Total equity		**15,727,006**	14,735,187

NOTES

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The unaudited interim financial information for the six-month period ended 30 June 2011 (the "Interim Financial Information") has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB").

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2010.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2010, except for the adoption of the new International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as of 1 January 2011 as noted below:

IFRS 1 Amendment *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The amendment permitted first-time adopters of IFRSs to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*. The amendment had no effect on the financial position or performance of the Group.

IAS 24 *Related Party Disclosures* (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 *Financial Instruments: Presentation* (Amendment)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group is not subject to minimum funding requirements. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The interpretation clarifies the accounting by the debtor when the debtor renegotiates the terms of its debt with the result that the liability is extinguished through issuing its own equity instruments to the creditor (i.e. a "debt for equity swap"). A gain or loss recognised in profit or loss is the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. This interpretation applies to all debtors that enter into debt for equity swap transactions in full or partial settlement of a financial liability. As the Group did not undertake such transactions, the interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations:* The measurement options available for non-controlling interest ("NCI") have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

IFRS 7 *Financial Instruments – Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The Group has illustrated those amendments in the condensed consolidated statement of changes in equity.

IAS 34 *Interim Financial Reporting:* The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group has illustrated those amendments in note 28 to the Interim Financial Information.

Other amendments resulting from *Improvements to IFRSs* to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 3 *Business Combinations* – Clarification that contingent considerations arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).

IFRS 3 *Business Combinations* – Unreplaced and voluntarily replaced share-based payment awards and their accounting treatment within a business combination.

IAS 27 *Consolidated and Separate Financial Statements* – Applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.

IFRIC 13 *Customer Loyalty Programmes* – In determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

3. SEGMENT INFORMATION

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

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

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

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

	Six-month period ended 30 June 2011 (Unaudited) ***RMB'000***	Six-month period ended 30 June 2010 (Unaudited) *RMB'000*
Segment revenue		
Sales to external customers	**29,805,550**	24,873,283
Segment results	**1,746,202**	1,430,976
Reconciliation		
Bank interest income	**101,387**	81,110
Unallocated income and gains	**3,807**	822
Loss on the derivative component of convertible bonds	**(233)**	(92,351)
Gain on redemption of the Old 2014 Convertible Bonds	**–**	202,578
Finance costs	**(118,727)**	(271,707)
Corporate and other unallocated expenses	**(66,003)**	(95,644)
Profit before tax	**1,666,433**	1,255,784

	30 June 2011 (Unaudited) ***RMB'000***	31 December 2010 (Audited) *RMB'000*
Segment assets	**24,097,835**	23,542,110
Reconciliation		
Corporate and other unallocated assets	**14,842,118**	12,675,152
Total assets	**38,939,953**	36,217,262
Segment liabilities	**20,460,373**	18,817,508
Reconciliation		
Corporate and other unallocated liabilities	**2,752,574**	2,664,567
Total liabilities	**23,212,947**	21,482,075

4. 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:

		For the six-month period ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue			
Sale of electrical appliances and consumer electronic products		**29,805,550**	24,873,283
Other income			
Income from suppliers		**1,088,844**	1,101,565
Management and purchasing service fees:			
– from the Non-listed GOME Group	*(i)*	**185,743**	138,931
– from Dazhong Appliances	*(ii)*	**42,311**	44,968
Management fees for air-conditioner installation		**63,015**	60,169
Gross rental income		**112,595**	89,864
Government grants	*(iii)*	**51,506**	47,925
Other service fee income		**51,264**	48,643
Commission income from sale of mobile phone cards		**77,137**	7,927
Others		**44,635**	23,603
		1,717,050	1,563,595
Gains			
Fair value gain on investment properties		**2,994**	436
Gain on disposal of a property		**17,032**	–
		20,026	436
		1,737,076	1,564,031

Notes:

(i) Beijing Eagle Investment Co., Ltd., Beijing Pengrun Property Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries are collectively referred to as the "Non-listed GOME Group". Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong Kwong Yu, a substantial shareholder and the former chairman of the Company.

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

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

5. PROFIT BEFORE TAX

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

	Notes	For the six-month period ended 30 June 2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Cost of inventories sold		**26,076,876**	22,199,502
Depreciation		**175,983**	156,380
Amortisation of intangible assets	*(i)*	**4,611**	4,521
(Gain) /loss on disposal of items of property and equipment		**(17,032)**	1,440
Minimum lease payments under operating leases in respect of land and buildings		**1,254,333**	982,737
Gross rental income	*4*	**(112,595)**	(89,864)
Fair value gain on investment properties	*4*	**(2,994)**	(436)
Interest income from Beijing Zhansheng	*6*	**(86,761)**	(86,761)
Staff costs:			
Wages, salaries and bonuses		**905,746**	566,119
Pension scheme contributions		**173,038**	112,610
Social welfare and other costs		**6,333**	11,280
Equity-settled share option expense		**19,959**	57,607
		1,105,076	747,616
Loss on the derivative component of convertible bonds	*12(i)*	**233**	92,351
Gain on redemption of the Old 2014 Convertible Bonds	*12(i)*	**–**	(202,578)
Fair value loss on Hong Kong listed investments		**–**	29
Foreign exchange differences, net		**19,908**	13,784

Note:

(i) The amortisation of intangible assets for the period is included in "Administrative expenses" on the face of the interim condensed consolidated income statement.

6. FINANCE (COSTS)/INCOME

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

	Notes	For the six-month period ended 30 June 2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Finance costs:			
Interest on a bank loan wholly repayable within five years		**(2,982)**	(7,451)
Interest expenses on convertible bonds	*12*	**(115,745)**	(264,256)
		(118,727)	(271,707)
Finance income:			
Bank interest income		**101,387**	81,110
Other interest income	*9*	**86,761**	86,761
		188,148	167,871

7. INCOME TAX EXPENSE

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current income tax – PRC	**439,078**	292,094
Deferred income tax	**(17,299)**	1,364
Total tax charge for the period	**421,779**	293,458

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. The determination of current and deferred income taxes was based on 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 treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month period ended 30 June 2010: 25%) on their respective taxable income. During the current period, 28 entities (six-month period ended 30 June 2010: 30 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates.

The Group realised a significant amount of tax benefits during the period through applying the preferential corporate income tax rates. 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 six-month periods ended 30 June 2011 and 2010, as the Group had no assessable profits arising in Hong Kong for each of the periods.

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares of 16,810,807,000 (six-month period ended 30 June 2010: 15,055,332,000) in issue during the period.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

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

	For the six-month period ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent company used in the basic earnings per share calculation	**1,251,849**	962,326
Interest on the Old 2014 Convertible Bonds	**–**	49,988
Fair value loss on the derivative component of the Old 2014 Convertible Bonds	**–**	92,351
Gain on redemption of the Old 2014 Convertible Bonds	**–**	(202,578)
Profit attributable to ordinary equity holders of the parent company as adjusted for the effect of dilution	**1,251,849**	902,087

		Number of shares for the six-month period ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***'000***	*'000*
Shares			
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation		**16,810,807**	15,055,332
Effect of dilution – weighted average number of ordinary shares:			
Warrants	*(i)*	**5,345**	34,272
Share options		**82,084**	33,605
Convertible bonds	*(ii)*	**–**	491,084
		16,898,236	15,614,293

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.

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

(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 six-month period ended 30 June 2011 and were therefore not included in the calculation of diluted earnings per share.

The 2016 Convertible Bonds, which were fully converted on 15 September 2010, and the New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the six-month period ended 30 June 2010 and were therefore not included in the calculation of diluted earnings per share. Therefore, only the effect of the Old 2014 Convertible Bonds was included in the calculation of diluted earnings per share for the six-month period ended 30 June 2010. The Old 2014 Convertible Bonds that were redeemed during the six-month period ended 30 June 2010 were included in the calculation of diluted earnings per share only for the portion of the period during which they were outstanding.

9. DESIGNATED LOANS

The designated loan to Huihai

The designated loan (the "Huihai Loan") of RMB48 million as at 31 December 2010 represented the aggregate amount of a loan provided to Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") through the Beijing Branch of China Bohai Bank Co., Ltd. The Huihai Loan was to be used by Huihai for the sole purpose of capital injection into Kuba Technology (Beijing) Co., Ltd ("Kuba") to acquire an 80% equity interest in Kuba. The Huihai Loan had a term of five years and bore interest at a rate of 4.86% per annum, which was determined by reference to the interest rate published by the People's Bank of China. In January 2011, the Group acquired Huihai which became a subsidiary of the Company and this intra-group designated loan has been eliminated on consolidation.

The designated loan to Beijing Zhansheng

The designated loan of RMB3,600 million as at 30 June 2011 (31 December 2010: RMB3,600 million) represented the aggregate amount of loans provided to Beijing Zhansheng by the Group, through the Beijing Branch of Industrial Bank Co., Ltd. The loan had a maturity date on 12 December 2009 and the interest rate of 5.103% per annum. On 15 December 2009, the designated loan was renewed to 14 December 2011 with an interest rate of 4.86% per annum.

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

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

As at the date of the Interim Financial Information, the board of directors of the Company is considering to exercise the Purchase Option on Dazhong Appliances in the near future.

10. 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 terms offered to customers are 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:

	30 June 2011 (Unaudited) *RMB'000*	31 December 2010 (Audited) *RMB'000*
Outstanding balances, aged:		
Within 3 months	**146,910**	204,240
3 to 6 months	**178**	1,489
6 months to 1 year	**1,045**	284
Over 1 year	**220**	89
	148,353	206,102

The balance at 30 June 2011 included the trade receivables from Dazhong Appliances of RMB54,392,000 (31 December 2010: RMB118,223,000). During the six-month period ended 30 June 2011, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB1,132.6 million (six-month period ended 30 June 2010: RMB78.5 million).

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

11. TRADE AND BILLS PAYABLES

	30 June 2011 (Unaudited) *RMB'000*	31 December 2010 (Audited) *RMB'000*
Trade payables	**5,624,622**	5,757,564
Bills payable	**12,849,312**	11,142,119
	18,473,934	16,899,683

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

	30 June 2011 (Unaudited) *RMB'000*	31 December 2010 (Audited) *RMB'000*
Within 3 months	**12,995,956**	8,163,552
3 to 6 months	**5,315,244**	8,443,194
Over 6 months	**162,734**	292,937
	18,473,934	16,899,683

11. **TRADE AND BILLS PAYABLES (continued)**

The Group's bills payable and PRC bank loan are secured by:

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

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

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

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

(v) the corporate guarantees provided by the Non-listed GOME Group.

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

12. **CONVERTIBLE BONDS**

	Notes	**30 June 2011 (Unaudited)** *RMB'000*	31 December 2010 (Audited) *RMB'000*
Liability components:			
Old 2014 Convertible Bonds	*(i)*	**133,663**	129,976
2016 Convertible Bonds	*(ii)*	**–**	–
New 2014 Convertible Bonds	*(iii)*	**1,890,769**	1,814,069
		2,024,432	1,944,045
Classified as current liabilities		**(133,663)**	(129,976)
Non-current liabilities		**1,890,769**	1,814,069

Notes:

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

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

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

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

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

(c) redeemable at the option of the Company at 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 20 consecutive trading days are over 130% of the early redemption price.

12. CONVERTIBLE BONDS (continued)

(i) RMB denominated United States dollar ("USD") settled zero coupon convertible bonds due in 2014 (continued)

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 will be in USD using the spot rate prevailing at the date of transaction.

The conversion price of the Old 2014 Convertible Bonds was HK$4.46 per share as at 31 December 2010 and 30 June 2011. No adjustment was made to the conversion price during the six-month period ended 30 June 2011.

On 18 May 2010, the Company redeemed part of the Old 2014 Convertible Bonds with an aggregate principal amount of RMB2,625,900,000 pursuant to redemption notices received from the bondholders in accordance with the terms and conditions of the Old 2014 Convertible Bonds. The bonds redeemed were cancelled.

As at 30 June 2011, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding.

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for the period 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 31 December 2010 and 1 January 2011 (audited)	129,976	(7,349)	287,483	410,110
Interest expenses	3,687	–	–	3,687
Fair value adjustment	–	233	–	233
At 30 June 2011 (unaudited)	133,663	(7,116)	287,483	414,030

	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 31 December 2009 and 1 January 2010 (audited)	2,281,046	(100,689)	970,813	3,151,170
Interest expenses	49,988	–	–	49,988
Fair value adjustment	–	92,351	–	92,351
Redemption of bonds	(2,204,756)	–	(683,330)	(2,888,086)
At 30 June 2010 (unaudited)	126,278	(8,338)	287,483	405,423

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

12. CONVERTIBLE BONDS (continued)

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

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

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

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

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

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

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

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

On 15 September 2010, the 2016 Convertible Bonds were converted in full into 1,630,702,330 conversion shares at the conversion price of HK$1.108 per conversion share in accordance with the terms of the convertible bonds.

12. CONVERTIBLE BONDS (continued)

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

The movements of the liability component and equity component of the 2016 Convertible Bonds during the period ended 30 June 2010 were as follows:

	Liability component of convertible bonds *RMB'000*	Equity component of convertible bonds *RMB'000*	Total *RMB'000*
At 31 December 2009 and 1 January 2010 (audited)	1,502,733	137,411	1,640,144
Interest expenses	111,067	–	111,067
Interest paid	(39,750)	–	(39,750)
At 30 June 2010 (unaudited)	1,574,050	137,411	1,711,461

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

On 23 September 2009 and 25 September 2009, the Company issued RMB denominated USD settled 3% coupon convertible bonds due 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 of 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 of their early redemption amount as at the date fixed for redemption together with interest accrued to the date fixed for redemption, provided that the closing prices of the Company's shares for 30 consecutive trading days prior to the date upon which notice of such redemption is published are at least 130% of the early redemption amount of a bond divided by the conversion ratio.

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

The conversion price of the New 2014 Convertible Bonds was adjusted from HK$2.8380 per share to HK$2.79 per share (at the fixed rate of HK$1.1351 = 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.

12. CONVERTIBLE BONDS (continued)

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

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

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

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

	Liability component of convertible bonds *RMB'000*	**Equity component of convertible bonds** *RMB'000*	**Total** *RMB'000*
At 31 December 2010 and 1 January 2011 (audited)	1,814,069	688,021	2,502,090
Interest expenses	112,058	–	112,058
Interest paid	(35,358)	–	(35,358)
At 30 June 2011 (unaudited)	1,890,769	688,021	2,578,790

	Liability component of convertible bonds *RMB'000*	Equity component of convertible bonds *RMB'000*	Total *RMB'000*
At 31 December 2009 and 1 January 2010 (audited)	1,672,176	688,021	2,360,197
Interest expenses	103,201	–	103,201
Interest paid	(35,358)	–	(35,358)
At 30 June 2010 (unaudited)	1,740,019	688,021	2,428,040

13. DIVIDENDS

	For the six-month period ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Final dividend for 2010: HK$4.1 cents (equivalent to RMB3.5 fen) per ordinary share paid during the period	**587,455**	–
Proposed interim dividend: HK$2.7 cents (equivalent to RMB2.2 fen) (2010: nil) per ordinary share	**378,335**	–

The proposed dividend for the six-month period ended 30 June 2011 was approved by the Board on 29 August 2011.

14. EVENTS AFTER THE REPORTING PERIOD

Share options

During the period from 30 June 2011 to 26 August 2011, being the latest practicable day, the subscription rights attaching to 29,343,000 share options were exercised at the subscription price of HK$1.9 per share, resulting in the issue of 29,343,000 shares.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the reporting period, in adherence to the strategic maxim of "leading in 2011 through maximum effort and minimum waste" set out at the beginning of the year, the Group exhibited satisfactory performance in the areas of network coverage, business transformation, infrastructure construction and e-commerce, capitalizing on the favorable external operating environment. As at the end of the reporting period, the Group's total number of stores rose to 938 from 826 at the end of 2010, following the opening of 131 new stores and the closure of 19 underperforming stores. Also, by remodelling our stores and leveraging our merchandise management strategies, the operational efficiency of individual premises was further improved, as demonstrated by the 7.42% growth in sales revenue from comparable stores.

The Group recorded sales revenue of approximately RMB29,806 million for the reporting period, up 19.83% from RMB24,873 million over the corresponding period of the previous year. Profit attributable to owners of the parent company rose 30.15% to approximately RMB1,252 million from RMB962 million over the corresponding period of the previous year.

The various initiatives formulated by the Group at the beginning of the year were well under way. Apart from expanding store network coverage and remodelling our stores as mentioned above, other focuses were as follows. (1) The e-commerce websites COO8 online shopping network and GOME online shopping mall were launched in the first half of the year, as the Group moved to intensify its focus on multi-channel and multi-platform business development to strengthen its leading position in the market. (2) Trial runs in some stores under the ERP Leader Navigation Project ("ERP Project") were successfully implemented on 1 July 2011, with full implementation expected within this year, thereby enhancing the Group's overall management ability and reducing operating costs, reinforcing its core retail capability. (3) The Group achieved profit differentiation through product differentiation as it continued implementing operational differentiation and drove the development of ODM and OEM manufacture, consequently enhancing its overall profitability. (4) The Group further enhanced the integration of information sharing with its suppliers and further improved its relationships with them.

FINANCIAL REVIEW

Revenue

During the reporting period, the Group's revenue was approximately RMB29,806 million, up 19.83% from RMB24,873 million in the corresponding period of 2010. The Group's weighted average sales area was approximately 3,111,000 sq.m. The Group's revenue per sq.m. was approximately RMB9,581, up 4.18% as compared to RMB9,197 in the corresponding period of 2010. The Group had 669 comparable stores, recording a revenue of RMB24,202 million, up 7.42% as compared to RMB22,531 million in the corresponding period of 2010.

Cost of Sales and Gross Profit

Cost of sales for the Group was approximately RMB26,077 million in the reporting period, accounting for 87.49% of the total sales revenue, lower than the proportion of 89.25% in the corresponding period of 2010. The Group's gross profit was approximately RMB3,729 million, up 39.45% as compared with RMB2,674 million in the corresponding period of last year. Gross profit margin was 12.51%, up 1.76 percentage points from 10.75% in the corresponding period of last year. The main reason for the increase was that the Group strove successfully to enhance the overall gross profit margin by standardizing contract terms with its suppliers, such that the original uncontracted charges were included in the supplier contracts and these charges were directly reflected in the gross profit. Additionally, continuous implementation of differentiated products strategy also contributed to the increase in overall gross profit margin.

Other Income and Gains

During the reporting period, the Group recorded other income and gains of approximately RMB1,737 million, representing an increase of 11.06% as compared to RMB1,564 million in the corresponding period of 2010. The percentage of income from suppliers over sales revenue was 3.65%, lower than 4.43% in the corresponding period of the previous year. The main reason was due to the standardization of contract terms between the Group and suppliers in the reporting period, which caused more income to be directly reflected in gross profit.

Consolidated Gross Profit Margin

During the reporting period, the Group's consolidated gross profit margin reached 18.34%, representing an increase of 1.30 percentage points as compared to 17.04% for the corresponding period of 2010. The increase in gross profit margin has driven the increase in consolidated gross profit margin, and also reflected the advantages of product differentiation, economies of scale and increased operating efficiency.

Selling and Distribution Costs

During the reporting period, the Group's total selling and distribution costs amounted to approximately RMB3,086 million. The percentage over sales revenue was 10.35%, up 0.90 percentage points as compared to 9.45% in the corresponding period of 2010. The increase of selling and distribution costs was mainly due to the increase in staff costs, which as a percentage of sales revenue increased 0.65 percentage points as compared with the corresponding period of last year, as the result of the large-scale expansion of store network, recruitment of salespersons by the Group to replace salespersons assigned by suppliers, and the enhancement of the incentive remuneration package of employees.

Administrative Expenses

With continuing expansion of the Group's operating scale and the need to strengthened the precision management strategy, administrative expenses increased accordingly. During the reporting period, administrative expenses was approximately RMB576 million, the proportion over sales revenue was 1.93%, up 0.09 percentage points as compared to 1.84% in the corresponding period of 2010. The administrative expenses still maintained at a relatively low level in the industry due to strong control over expenses by the Group.

Other Expenses

Other expenses of the Group mainly comprised, among others, business taxes, bank charges and exchange loss. Other expenses were approximately RMB207 million during the reporting period, accounting for 0.70% of sales revenue, slightly lower than the proportion of 0.73% in the corresponding period of 2010.

Profit from Operating Activities

During the reporting period, the Group's profit from operating activities was approximately RMB1,597 million, representing an increase of 27.86% as compared to RMB1,249 million in the corresponding period of 2010, which was mainly attributable to an increase in the consolidated gross profit margin while keeping the operating expenses at a reasonable level.

Net Finance Gains

During the reporting period, following a decrease in interest expenses on convertible bonds after the bonds were redeemed or converted into the Company's shares, the Group's net finance gains were approximately RMB69 million, as compared with a net finance loss of RMB104 million in the first half of 2010. In addition, interest income also increased 11.90% to RMB188 million for the reporting period from RMB168 million in the corresponding period of the previous year.

Profit before Tax

During the reporting period, the Group's profit before tax was approximately RMB1,666 million, representing an increase of 32.64% as compared to approximately RMB1,256 million for the corresponding period of 2010. Profit margin before tax also increased 0.54 percentage points to 5.59% from 5.05% for last year.

Income Tax Expense

During the reporting period, the Group's income tax expense was approximately RMB422 million, higher than the RMB293 million recorded for the corresponding period of 2010. Management considers that the effective tax rate applied to the Group for the reporting period is reasonable.

Profit for the Period and Earnings per Share Attributable to Owners of the Parent Company

During the reporting period, the Group's profit attributable to owners of the parent company was approximately RMB1,252 million, representing an increase of 30.15% as compared to RMB962 million for the corresponding period of last year. Net profit margin was 4.20%, up by 0.33 percentage points as compared to 3.87% for the corresponding period of the previous year. Basic earnings per share were RMB0.074, representing a growth of 15.63% as compared to RMB0.064 for the corresponding period of last year.

Cash and Cash Equivalents

As at the end of the reporting period, cash and cash equivalents held by the Group were approximately RMB8,398 million, representing an increase of 34.76% as compared to RMB6,232 million as at the end of 2010. Due to steady business performance improvement and effective payment control, cash and cash equivalents continued to increase.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB8,521 million, up 5.39% as compared to RMB8,085 million at the end of 2010. Inventory turnover days increased to 58 days in the reporting period from approximately 50 days in the first half of 2010, which was mainly attributable to expansion of stores network in second-tier markets and the resulting longer logistics supply chain.

Prepayments, Deposits and Other Receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB2,406 million, slightly down 1.64% from RMB2,446 million as at the end of 2010.

Trade and Bills Payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB18,474 million, up 9.31% from RMB16,900 million as at the end of 2010. Turnover days of trade and bills payables were 123 days, down by 7 days as compared to 130 days for the corresponding period of 2010.

Capital Expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB377 million, representing a 144.81% increase as compared to RMB154 million in the first half of 2010. The increase was mainly due to the accelerating pace of expansion of the Group's store network coverage in the period.

Cash Flows

During the reporting period, the Group's net cash flows generated from operating activities amounted to approximately RMB2,403 million, down by 23.13% as compared to RMB3,126 million in the corresponding period of last year.

Net cash flows used in investing activities amounted to approximately RMB470 million, representing an increase of 219.73% as compared to RMB147 million in the first half of 2010, which was mainly attributable to the accelerating expansion of the Group's store network coverage in the period.

During the reporting period, as there was no cash outflow used for the redemption of convertible bonds, net cash flows generated from financing activities amounted to approximately RMB207 million, as compared with a total of RMB3,018 million used in the first half of 2010.

Charge on Group Assets

As at the end of June 2011, the Group's bills payable and PRC bank loans were secured by the Group's time deposits amounting to RMB6,235 million, certain inventories with a carrying value of RMB540 million and certain buildings and self-owned properties of the Group with a carrying value of RMB2,196 million. The Group's bills payable and PRC bank loans amounted to RMB12,949 million.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

During the reporting period, the Group had no material contingent liabilities and had capital commitments of approximately RMB165 million.

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 US dollar, the Group's short-term HK dollar and US dollar deposits recorded an exchange loss in the period. The Group has adopted effective measures to reduce such risks. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

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

FINANCIAL RESOURCES AND GEARING RATIO

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

As at the end of June 2011, the total borrowings of the Group, being interest-bearing bank borrowings and convertible bonds, amounted to RMB2,124 million. Of the total borrowings, RMB234 million will be repayable within one year and RMB1,890 million will be repayable after one year. The Group's financing activities continue to be supported by its bankers.

As at 30 June 2011, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to RMB2,124 million over total equity amounting to RMB15,727 million, slightly decreased to 13.51% from 13.87% as at 31 December 2010.

HUMAN RESOURCES EXPERTISE

The Group has a total of 57,982 employees as at the end of June 2011. The Group has strengthened human resources management and development to meet the needs of its business scale expansion and dedicated management. In line with its expansion strategy, the Group has implemented a shop manager training program. During the reporting period, 850 candidates of qualified shop manager level and 1,802 candidates of qualified assistant shop manager level were trained. In order to enhance retail service standard, the Group expanded its number of retail training schools ("SOL") to 73 nationwide. The Group also constructed a comprehensive E-learning platform and continued to standardize and systematize terminal training to support the roll-out of its ERP system. Such measures have fully met the requirements for talent training to cope with the Group's development.

OUTLOOK AND PROSPECTS

Year 2011 is the first year of China's 12th Five-Year Plan, heralding the country's economic restructuring. In response to macroeconomic trends, the Group will firmly implement its development plan over the next five years in adherence to the strategic maxim of "leading in 2011 through maximum effort and minimum waste" set out at the beginning of the year. We will strive to expand our store network and drive same-store growth, and will continue to promote business restructuring. The Group will continue to capitalize on the benefits of economies of scale, and effectively transform these into our strengths in supply chain and product management. During this period of expansion and transformation, the Group will strictly control its risk exposure to ensure fast and steady growth, achieving a rapid rise in sales and a steady increase in profitability.

At the same time of maintaining its leading position in the home appliance retail industry, the Group will endeavor to further optimize its store network in first-tier markets, while actively expanding into second-tier markets. The Group will penetrate into third-tier and fourth-tier markets which are economically developed, when opportunities arise. Coupled with its efforts in first-tier and second-tier markets, the Group will solidify its leading position.

Following the rollout of the Group's e-commerce websites, namely the COO8 online shopping network and the revamped GOME online shopping mall, in the reporting period, the Group's e-commerce operating model, featuring "B2C + physical stores", has been introduced to the market officially, with a view to establishing such e-commerce platforms as the most influential online sales networks in the industry. Accordingly, the Group will lead the development of the home appliances industry and cater to the demand from emerging consumer groups for home appliances.

In order to support the fast expansion of its store network and the development of its e-commerce business, the Group will push ahead with the development of regional logistics centers, supplemented by the advanced information systems management, to meet the demand for logistics and information flow in future development.

The ERP Project launched by the Group in 2010 has already achieved its initial successes, and the Group is planning to complete the installation of ERP systems for all branch offices by the end of the year. With the leading software system in the world, we will capture valuable information in various operational processes, such as procurement, warehousing, sales and back-office administration, to provide strong support for the Group's development in the future.

The Group will continue to migrate and improve its operating model from "shopping mall" to "merchandise management"; strengthen store operating efficiency; and push ahead with the transformation of existing stores to enhance its product category management. In pursuing closer cooperation with major suppliers for procurement, the Group endeavors to reduce the operating costs of both parties, and at the same time lower the purchasing costs for consumers. With its new information systems management, the Group will be able to capitalize on the consumer demand more accurately. Through analysis of the operations of its nationwide terminal stores and e-commerce platforms, the Group will consolidate information on consumer demand and share such information with suppliers, thereby setting guidelines for suppliers' raw material procurement, product R&D and manufacturing. Accordingly, "immediate procurement on demand" and "immediate supply on demand" can be achieved; inventory accumulation and the related costs can be reduced throughout the supply chain.

In terms of customer service, the Group has strengthened the construction of multimedia customer service platforms, which include functions such as telephone, internet, SMS, email and fax, as well as promoting industrial specific and regional customer services, and strengthening professional services such as home appliances consultancy services. Together with the launch of the new ERP systems, the Group will implement monitoring system in the entire process from delivery and installation to maintenance. The Group will continue to optimize the structure of service products and enhance its service quality continuously, so as to improve customer satisfaction to the full.

INTERIM DIVIDEND AND DIVIDEND POLICY

The Board declared an interim dividend of HK$2.7 cents (equivalent to RMB2.2 fen) per ordinary share (the "Interim Dividend") for the six-month period ended 30 June 2011, amounting to approximately HK$454,937,000 (equivalent to RMB378,335,000) to shareholders whose names appear on the register of members of the Company on Wednesday, 28 September 2011. The interim dividend will be payable on or about Friday, 21 October 2011.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 28 September 2011 to Friday, 30 September 2011 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the Interim Dividend, all properly completed and duly stamped transfer forms accompanied by the relevant share certificates should be lodged with the Company's registrar, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 27 September 2011. The record date for the determination of entitlement to the Interim Dividend will be on Wednesday, 28 September 2011.

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

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

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 6 months period ended 30 June 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules for the six-month period ended 30 June 2011.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon specific enquiries made by the Company, the Company confirms that all Directors for the period under review have complied with the required standard set out in the Model Code throughout the period under review.

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee of the Company has reviewed this interim results of the Company, together with the internal control and financial reporting matters of the Group, which includes the unaudited interim consolidated financial statements of the Group for the six-month period ended 30 June 2011 as reviewed by Ernst & Young, the external auditors.

PUBLICATION INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.gome.com.hk). The 2011 Interim Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

APPRECIATION

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

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

Hong Kong, 29 August 2011

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

* *For identification purpose only*