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 2012

FINANCIAL HIGHLIGHTS

	First half of 2012 *RMBm*	First half of 2011 *RMBm*
Revenue	**23,126**	29,806
Gross profit	**2,924**	3,729
Consolidated gross profit margin*	**16.37%**	18.34%
(Loss)/profit from operating activities	**(528)**	1,597
(Loss)/profit attributable to owners of the parent company	**(501)**	1,252
(Loss)/earnings per share		
– Basic	**(RMB3.0 fen)**	RMB7.4 fen
– Diluted	**(RMB3.0 fen)**	RMB7.4 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 2012 together with the comparative figures for the corresponding period in 2011 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2012

		For the six-month period ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**23,125,960**	29,805,550
Cost of sales		**(20,202,322)**	(26,076,876)
Gross profit		**2,923,638**	3,728,674
Other income and gains	*4*	**861,616**	1,737,076
Selling and distribution costs		**(3,450,855)**	(3,085,535)
Administrative expenses		**(684,756)**	(575,847)
Other expenses		**(177,305)**	(207,123)
(Loss)/profit from operating activities		**(527,662)**	1,597,245
Finance costs	*6*	**(131,901)**	(118,727)
Finance income	*6*	**200,843**	188,148
Fair value loss on the derivative component of convertible bonds	*5,12(i)*	**–**	(233)
Gain on redemption of convertible bonds	*5*	**15,998**	–
(LOSS)/PROFIT BEFORE TAX	*5*	**(442,722)**	1,666,433
Income tax expense	*7*	**(92,036)**	(421,779)
(LOSS)/PROFIT FOR THE PERIOD		**(534,758)**	1,244,654
Attributable to:			
Owners of the parent company		**(501,087)**	1,251,849
Non-controlling interests		**(33,671)**	(7,195)
		(534,758)	1,244,654
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY	*8*		
– Basic		**(RMB3.0 fen)**	RMB7.4 fen
– Diluted		**(RMB3.0 fen)**	RMB7.4 fen

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2012

	For the six-month period ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE PERIOD	**(534,758)**	1,244,654
OTHER COMPREHENSIVE INCOME		
Changes in fair value of other investments	**10,260**	35,438
Exchange differences on translation of foreign operations	**11,336**	25,490
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**21,596**	60,928
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(513,162)**	1,305,582
Attributable to:		
Owners of the parent company	**(479,491)**	1,312,777
Non-controlling interests	**(33,671)**	(7,195)
	(513,162)	1,305,582

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	**30 June 2012 (Unaudited)** ***RMB'000***	31 December 2011 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**4,121,161**	3,874,370
Investment properties		**915,226**	915,226
Goodwill		**4,030,771**	4,030,771
Other intangible assets		**104,049**	108,660
Other investments		**156,060**	145,800
Lease prepayments and deposits		**368,770**	403,171
Deferred tax assets		**50,647**	66,663
Designated loan	*9*	**3,600,000**	3,600,000
Total non-current assets		**13,346,684**	13,144,661
CURRENT ASSETS			
Inventories		**6,852,792**	9,625,044
Trade and bills receivables	*10*	**413,279**	199,598
Prepayments, deposits and other receivables		**2,624,774**	3,728,279
Due from related parties		**121,387**	169,390
Pledged deposits		**3,892,645**	4,388,998
Cash and cash equivalents		**8,232,021**	5,971,498
Total current assets		**22,136,898**	24,082,807
CURRENT LIABILITIES			
Interest-bearing bank loan		**1,075,233**	–
Trade and bills payables	*11*	**14,923,221**	17,140,383
Customers' deposits, other payables and accruals		**1,674,473**	1,523,315
Convertible bonds	*12*	**2,061,111**	2,111,610
Tax payable		**279,737**	440,905
Total current liabilities		**20,013,775**	21,216,213

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2012

	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
NET CURRENT ASSETS	**2,123,123**	2,866,594
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,469,807**	16,011,255
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**91,318**	92,961
Derivative liability related to a cross currency swap	**12,949**	–
Total non-current liabilities	**104,267**	92,961
Net assets	**15,365,540**	15,918,294
EQUITY		
Equity attributable to owners of the parent company		
Issued capital	**421,551**	421,521
Reserves	**14,943,989**	15,527,242
	15,365,540	15,948,763
Non-controlling interests	**–**	(30,469)
Total equity	**15,365,540**	15,918,294

NOTES

1. CORPORATE INFORMATION

GOME Electrical Appliances Holding Limited is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 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 2012 (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 2011.

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 2011, except for the adoption of the amendments to the IASs and International Financial Reporting Standards ("IFRSs") interpretations as of 1 January 2012 as noted below:

IAS 12 – *Deferred Tax: Recovery of Underlying Assets* (Amendments)

These amendments to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, a requirement that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. The effective implementation date is annual periods beginning on or after 1 January 2012. While the amendments are applicable, they have no impact on the financial statement of the Group.

The following amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group:

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

New standards, interpretations and amendments thereof, adopted by the Group (continued)

IFRS 7 – *Disclosures – Transfers of Financial Assets* (Amendments)

The IASB has issued amendments to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities.

If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The effective implementation date is annual periods beginning on or after 1 July 2011 with no comparative requirements.

IFRS 1 – *Severe Hyperinflation and Removal IFRSs of Fixed Dates for First-time Adopters* (Amendments)

When an entity's date of transition to IFRSs is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRSs. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The effective implementation date is annual periods beginning on or after 1 July 2011 with early adoption permitted.

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

3. OPERATING SEGMENT INFORMATION

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

Management monitors the results of the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that bank interest income, unallocated income, finance costs, the fair value loss on the derivative component of convertible bonds, the gain on redemption of the Old 2014 Convertible Bonds as defined in note 12(i), the fair value loss on a cross currency swap and corporate and other unallocated expenses are excluded from such measurement.

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

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

3. OPERATING SEGMENT INFORMATION (continued)

	Six-month period ended 30 June 2012 (Unaudited) *RMB'000*	Six-month period ended 30 June 2011 (Unaudited) *RMB'000*
Segment revenue		
Sales to external customers	**23,125,960**	29,805,550
Segment results	**(391,482)**	1,746,202
Reconciliation		
Bank interest income	**94,862**	101,387
Unallocated income	**2,944**	3,807
Fair value loss on the derivative component of convertible bonds	**–**	(233)
Fair value loss on a cross currency swap	**(12,949)**	–
Gain on redemption of the Old 2014 Convertible Bonds	**15,998**	–
Finance costs	**(131,901)**	(118,727)
Corporate and other unallocated expenses	**(20,194)**	(66,003)
(Loss)/profit before tax	**(442,722)**	1,666,433

	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Segment assets	**23,152,209**	26,654,509
Reconciliation		
Corporate and other unallocated assets	**12,331,373**	10,572,959
Total assets	**35,483,582**	37,227,468
Segment liabilities	**16,597,694**	18,663,698
Reconciliation		
Corporate and other unallocated liabilities	**3,520,348**	2,645,476
Total liabilities	**20,118,042**	21,309,174

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	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue			
Sale of electrical appliances and consumer electronic products		**23,125,960**	29,805,550
Other income			
Income from suppliers, net		**376,419**	1,088,844
Management and purchasing service fees:			
– from the Non-listed GOME Group	*(i)*	**122,880**	185,743
– from Dazhong Appliances	*(ii)*	**–**	42,311
Administrative income from air-conditioner installation service		**38,227**	63,015
Gross rental income		**117,316**	112,595
Government grants	*(iii)*	**90,943**	51,506
Other service fee income		**48,808**	51,264
Others		**64,233**	121,772
		858,826	1,717,050
Gains			
Foreign exchange gain	5	**2,790**	–
Fair value gain on investment properties		**–**	2,994
Gain on disposal of items of property and equipment		**–**	17,032
		2,790	20,026
		861,616	1,737,076

Notes:

(i) 北京鵬潤投資有限公司, 北京鵬潤地產控股有限公司, 北京國美電器有限公司, 國美電器零售有限公司 and its subsidiaries are collectively referred to as the "Non-listed GOME Group". 國美電器零售有限公司 and its subsidiaries are engaged in the retail sale and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong Kwong Yu ("Mr. Wong"), a substantial shareholder and the former chairman of the Company.

(ii) The Group entered into a management agreement (the "Management Agreement") with 北京戰聖投資有限公司("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 北京市大中家用電器連鎖銷售有限公司("Dazhong Appliances") for management fees. According to the Management Agreement, no management fees are attributable to the Group if the net profit before deduction of such management fees is not sufficient to cover the interest expense of the Designated Loan (note 9) and the shortfall to cover the interest expense of the Designated Loan can be deducted from future management fees. During the six-month period ended 30 June 2012, Dazhong Appliances did not generate sufficient profit to pay the interest expense of the Designated Loan and therefore no management fees were payable to the Group.

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

5. (LOSS)/PROFIT BEFORE TAX

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

		For the six-month period ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Cost of inventories sold		**20,202,322**	26,076,876
Depreciation		**234,252**	175,983
Amortisation of intangible assets	*(i)*	**4,611**	4,611
Loss/(gain) on disposal of items of property and equipment		**1,376**	(17,032)
Minimum lease payments under operating leases in respect of land and buildings		**1,568,763**	1,254,333
Gross rental income	*4*	**(117,316)**	(112,595)
Fair value gain on investment properties	*4*	**–**	(2,994)
Interest income from Beijing Zhansheng	*6*	**(105,981)**	(86,761)
Staff costs:			
Wages, salaries and bonuses		**897,633**	905,746
Pension scheme contributions*		**222,377**	173,038
Social welfare and other costs		**22,171**	6,333
Equity-settled share option expense		**290**	19,959
		1,142,471	1,105,076
Fair value loss on the derivative component of convertible bonds	*12(i)*	**–**	233
Fair value loss on a cross currency swap		**12,949**	–
Gain on redemption of the Old 2014 Convertible Bonds	*12(i)*	**(15,998)**	–
Foreign exchange differences, net		**(2,790)**	19,908

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.

* At 30 June 2012, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2011: Nil).

6. FINANCE (COSTS)/INCOME

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

	Notes	For the six-month period ended 30 June **2012** **(Unaudited)** ***RMB'000***	2011 (Unaudited) *RMB'000*
Finance costs:			
Interest expenses on bank loan wholly repayable within five years		**(6,058)**	(2,982)
Interest expenses on convertible bonds	*12*	**(125,843)**	(115,745)
		(131,901)	(118,727)
Finance income:			
Bank interest income		**94,862**	101,387
Other interest income	*(i)*	**105,981**	86,761
		200,843	188,148

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest at 5.90% (six months ended 30 June 2011: 4.86%) per annum, which was determined by reference to the interest rates published by the People's Bank of China.

7. INCOME TAX EXPENSE

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June **2012** **(Unaudited)** ***RMB'000***	2011 (Unaudited) *RMB'000*
Current income tax – PRC	**77,663**	439,078
Deferred income tax	**14,373**	(17,299)
Total tax charge for the period	**92,036**	421,779

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.

7. INCOME TAX EXPENSE (continued)

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month period ended 30 June 2011: 25%) on their respective taxable income. During the current period, 19 entities (six-month period ended 30 June 2011: 28 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 2012 and 2011, as the Group had no assessable profits arising in Hong Kong for each of the periods.

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

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares of 16,874,599,000 (six-month period ended 30 June 2011: 16,810,807,000) in issue during the period.

The calculation of the diluted (loss)/earnings per share is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent company, adjusted to reflect the interest expenses on the convertible bonds and gain on redemption of the convertible bonds. The weighted average number of ordinary shares used in the calculation of diluted (loss)/earnings per share is the weighted average number of ordinary shares in issue during the period, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

	For the six-month period ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent company used in the basic (loss)/earnings per share calculation	**(501,087)**	1,251,849
Interest expenses on the Old 2014 Convertible Bonds	**3,417**	–
Gain on redemption of the Old 2014 Convertible Bonds	**(15,998)**	–
(Loss)/profit attributable to ordinary equity holders of the parent company as adjusted for the effect of dilution	**(513,668)**	1,251,849

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

	Notes	Number of shares for the six-month period ended 30 June **2012** **(Unaudited)** ***'000***	2011 (Unaudited) *'000*
Shares			
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation		**16,874,599**	16,810,807
Effect of dilution – weighted average number of ordinary shares:			
Warrants	*(i)*	**–**	5,345
Share options		**–**	82,084
Convertible bonds	*(ii)*	**29,972**	–
		16,904,571	16,898,236

Notes:

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

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

(ii) The New 2014 Convertible Bonds had an anti-dilutive effect on the basic loss per share for the six-month period ended 30 June 2012 and were therefore not included in the calculation of diluted loss per share.

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.

9. DESIGNATED LOAN

The designated loan of RMB3,600 million as at 30 June 2012 (31 December 2011: 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 with a maturity date on 14 December 2011 with an interest rate of 4.86% per annum. On 14 December 2011, the designated loan was further extended for a period from 15 December 2011 to 15 December 2012 with an interest rate of 5.90% per annum to reflect the current market interest rate.

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

In addition, pursuant to an option agreement dated 14 December 2007 and the renewed option agreement dated 15 December 2009, Beijing Zhansheng irrevocably granted the Group an option, 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.

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 term offered to customers is generally one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Management considers that there is no significant concentration of credit risk.

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

	30 June 2012 (Unaudited) ***RMB'000***	31 December 2011 (Audited) *RMB'000*
Outstanding balances, aged:		
Within 3 months	**411,155**	195,274
3 to 6 months	**2,124**	1,736
6 months to 1 year	**–**	2,588
Over 1 year	**–**	–
	413,279	199,598

The balance at 30 June 2012 included the trade receivables from Dazhong Appliances of RMB96,030,000 (31 December 2011: RMB22,550,000). During the six-month period ended 30 June 2012, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB1,256.7 million (six-month period ended 30 June 2011: RMB1,132.6 million).

The balances are unsecured and non-interest-bearing.

11. TRADE AND BILLS PAYABLES

	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Trade payables	**6,495,988**	7,177,734
Bills payable	**8,427,233**	9,962,649
	14,923,221	17,140,383

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

	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Within 3 months	**10,323, 685**	12,228,210
3 to 6 months	**4,347,886**	4,631,032
Over 6 months	**251,650**	281,141
	14,923,221	17,140,383

The Group's bills payable above is secured by:

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

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

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

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

(v) the corporate guarantees executed 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 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Liability components:			
Old 2014 Convertible Bonds	*(i)*	–	137,567
New 2014 Convertible Bonds	*(ii)*	**2,061,111**	1,974,043
		2,061,111	2,111,610

12. CONVERTIBLE BONDS (continued)

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.

The Old 2014 Convertible Bonds would be redeemed on maturity at a value equal to the aggregate of (a) its principal amount outstanding; (b) the interest accrued; and (c) a premium calculated at 5.38% of the principal amount. The settlement of the convertible bonds would be in USD using the spot rate prevailing at the dates of the transaction.

The conversion price of the Old 2014 Convertible Bonds was HK$4.46 per share as at 31 December 2011. No adjustment was made to the conversion price during the six-month period ended 30 June 2012.

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

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

As at 30 June 2012, no Old 2014 Convertible Bonds were outstanding.

12. CONVERTIBLE BONDS (continued)

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

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	**Derivative component of convertible bonds**	**Equity component of convertible bonds**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
At 31 December 2011 and 1 January 2012 (audited)	**137,567**	**–**	**287,483**	**425,050**
Interest expenses	**3,417**	**–**	**–**	**3,417**
Redemption of bonds	**(140,984)**	**–**	**(30,195)**	**(171,179)**
At 30 June 2012 (unaudited)	**–**	**–**	**257,288**	**257,288**

	Liability component of convertible bonds	Derivative component of convertible bonds	Equity component of convertible bonds	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

The fair value of the derivative component is determined based on the valuation performed by Jones Lang LaSalle using the applicable option pricing model.

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

On 23 September 2009 and 25 September 2009, the Company issued RMB denominated USD settled 3% coupon convertible bonds due in 2014 with an aggregate principal amount of RMB2,357.2 million.

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

(a) convertible at the option of the bondholders on or after 5 November 2009 up to the 10th day prior to 25 September 2014 at a conversion price of HK$2.8380 (at the fixed rate of HK$1.1351 to RMB1.00) per share;

(b) redeemable at the option of the bondholders in all or some only of the bonds on 25 September 2012 at a USD amount equivalent 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.

12. CONVERTIBLE BONDS (continued)

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

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the terms and conditions of the New 2014 Convertible Bonds, each bond 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 the 2010 final dividends approved by the shareholders of the Company on 10 June 2011 of HK4.1 cents (equivalent to RMB3.5 fen) per share and the change was announced on 21 June 2011.

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 on the amortised cost basis until extinguished on conversion or redemption. The value of the equity component is not remeasured in subsequent years.

As at 30 June 2012, the New 2014 Convertible Bonds with an aggregate principal amount of RMB2,357.2 million remained outstanding.

The movements of the liability component and equity component of the New 2014 Convertible Bonds for 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 2011 and 1 January 2012 (audited)	**1,974,043**	**688,021**	**2,662,064**
Interest expenses	**122,426**	**–**	**122,426**
Interest paid	**(35,358)**	**–**	**(35,358)**
At 30 June 2012 (unaudited)	**2,061,111**	**688,021**	**2,749,132**

	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

13. DIVIDENDS

	For the six-month period ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Final dividend: Nil (for 2010: HK4.1 cents (equivalent to RMB3.5 fen)) per ordinary share	**–**	582,275
Interim dividend: Nil (2011:HK2.7 cents (equivalent to RMB2.2 fen)) per ordinary share	**–**	382,483

14. EVENTS AFTER THE REPORTING PERIOD

Capital injection in Kuba and Xinruimei

On 25 May 2012, the Group and 北京國美銳動電子商務有限公司("GOME Ruidong"), of which Mr. Wong is the controlling shareholder, entered into a subscription agreement ("the Subscription Agreement") pursuant to which GOME Ruidong agreed to subscribe a 40% interest in the enlarged capital of each of Kuba Technology (Beijing) Co., Ltd ("Kuba") and Xinruimei E-Commerce Co., Ltd. ("Xinruimei"), two subsidiaries carrying out on-line business in the Group, for an aggregate consideration of RMB73,333,333. The capital injection was completed by GOME Ruidong on 13 July 2012.

In addition, on 25 May 2012, 國美電器有限公司("GOME Appliance"), a subsidiary of the Company, entered into the first master agreement with Kuba and Xinruimei, pursuant to which GOME Appliance will, or procure its nominee (being a member of the Group) to, (1) supply merchandise including the electrical appliances and consumer electronic products, and (2) provide (i) logistics and warehousing services and (ii) after-sales services to Kuba and Xinruimei from time to time during the term of the first master agreement. On the same day, GOME Ruidong entered into the second master agreement with Kuba and Xinruimei, pursuant to which GOME Ruidong will, or procure its nominee (being a member of the Non-listed GOME Group) to, (1) supply merchandise including the electrical appliances and consumer electronic products, and (2) provide (i) logistics and warehousing services and (ii) after-sales services to Kuba and Xinruimei from time to time during the term of the second master agreement. Both the first and the second master agreements above are conditional upon completion of the Subscription Agreement and have a term commencing from 25 May 2012 and ending on 31 December 2014.

The aggregate prices to be charged, respectively by each of GOME Appliance and GOME Ruidong, for the supply of merchandise, the provision of logistics and warehousing services as well as after-sales services to Kuba and Xinruimei for the period ending 31 December 2012 and the two years ending on 31 December 2014 will not exceed RMB800,000,000, RMB800,000,000 and RMB800,000,000, respectively.

Share options

Subsequent to 30 June 2012, a total of 4,749,000 subscription rights attaching to 3,619,000 share options and 1,130,000 share options were forfeited and lapsed, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") continued seeking opportunities in the complex and volatile business environment, and making aggressive internal reforms to adapt to the difficult external environment during the reporting period. This was premised on the strategic guiding concept proposed early this year aimed at "maintaining growth, controlling costs and enhancing profitability".

In the first half of 2012, the Group posted approximately RMB23,126 million in sales revenue during the reporting period, a decrease of 22.41% from RMB29,806 million for the same period last year. This was a result of Government's progressive withdrawal of the policies which were implemented since 2009 to stimulate home electrical appliances consumption, as well as China's ongoing property market austerity measures and further credit tightening, which significantly impacted consumer confidence and the whole home appliances industry. Given the relatively higher labor costs and property expenses, profit was eroded by the increased percentage of expenses to revenue. In addition, the Group's new and capital intensive e-commerce business also affected the profitability. During the reporting period, loss attributable to the owners of the parent company amounted to approximately RMB501 million, compared to a profit of RMB1,252 million last year.

Despite the economic downturn, the Group undertook a number of initiatives to manage its strategic transition:

(1) Regarding our store network, the Group continued to enhance operating capability of the store network and the quality of individual store operations during the first half of 2012. 62 new stores were opened and 45 under-performing stores were closed, which resulted in a net increase of 17 new stores among the 1,096 stores of the Group as at the end of the reporting period;

(2) On the e-commerce business front, during the period, the Group reorganized capital structure in the e-commerce companies to remove the obstacles existed in the legal and operating aspects. Meanwhile, the e-commerce platform is connected to the back-end systems of physical stores to raise the overall operational efficiency of the e-commerce business. Furthermore, the Group also exploited co-operations channel with external parties in order to expand the coverage of e-commerce business;

(3) During the reporting period, the Group strengthened the operating capability of its supply chain. Through providing differentiated products such as ODM and OEM, the Group accelerated the adoption of a proactive supply chain management. The Group also adopted a joint-marketing strategy as the key promotion method to reinforce a coordinated supply chain management. In addition, a supply chain platform was created particularly for small home appliances and consignment goods with an aim to expanding product categories and customers' satisfaction;

(4) During the reporting period, operational efficiency gradually improved as the new ERP system, which was launched in the first half of 2011, was successfully integrated.

FINANCIAL REVIEW

Revenue

During the reporting period, the Group's sales revenue was approximately RMB23,126 million, down 22.41% from RMB29,806 million in the corresponding period of 2011. The Group's weighted average sales area was approximately 3,687,000 sq.m. The Group's revenue per sq.m. was approximately RMB6,272, down 34.54% as compared to RMB9,581 in the corresponding period of 2011. The Group had 763 comparable stores, recording a revenue of RMB18,842 million, down 28.72% as compared to RMB26,435 million in the corresponding period of 2011.

Cost of Sales and Gross Profit

Cost of sales for the Group was approximately RMB20,202 million in the reporting period, accounting for 87.36% of the total sales revenue, lower than the proportion of 87.49% in the corresponding period of 2011. The Group's gross profit was approximately RMB2,924 million, down 21.59% as compared with RMB3,729 million in the corresponding period of last year. Gross profit margin was 12.64%, up 0.13 percentage points from 12.51% in the corresponding period of last year. The increase in gross profit margin was mainly due to the increase in the proportion of sales from differentiated products.

Other Income and Gains

During the reporting period, the Group recorded other income and gains of approximately RMB862 million, representing a decrease of 50.37% as compared to RMB1,737 million in the corresponding period of 2011. This is mainly due to increase in promotional activities for sales and resulted in reduction of the net income from the suppliers.

Consolidated Gross Profit Margin

During the reporting period, the Group's consolidated gross profit margin was 16.37%, representing a decrease of 1.97 percentage points as compared to 18.34% for the corresponding period of 2011. The decrease in consolidated gross profit margin was mainly due to the decrease in other income and gains.

Selling and Distribution Costs

During the reporting period, the Group's total selling and distribution costs amounted to approximately RMB3,451 million. The percentage over sales revenue was 14.92%, up 4.57 percentage points as compared to 10.35% in the corresponding period of 2011. The increase of selling and distribution costs was mainly due to the increase in rental expenses as a result of increasing number of stores. Moreover, due to the decline in sales revenue, rental expenses as a percentage of sales revenue raised 2.41 percentage points from 3.94% in the corresponding period of last year to 6.35%.

Administrative Expenses

With continuing expansion of the Group's operating scale and the need to strengthen the precision management strategy, administrative expenses increased accordingly. During the reporting period, administrative expenses were approximately RMB685 million, the proportion over sales revenue was 2.96%, up 1.03 percentage points as compared to 1.93% in the corresponding period of 2011.

Other Expenses

Other expenses of the Group mainly comprised, among others, business taxes and bank charges. Other expenses were approximately RMB177 million during the reporting period, accounting for 0.77% of sales revenue, remained at the same level as compared with 0.70% in the corresponding period of 2011.

Loss/Profit from Operating Activities

During the reporting period, the Group's loss from operating activities was approximately RMB528 million, as compared to RMB1,597 million profit in the corresponding period of 2011, which was mainly attributable to decline in sales revenue and at the same time staff and rental costs increased and the newly started e-commerce business incurred a loss during the period.

Net Finance Gains

During the reporting period, the Group's net finance gains were approximately RMB69 million, relatively the same as compared with the first half of 2011. In addition, interest income increased 6.91% to approximately RMB201 million for the reporting period from RMB188 million in the corresponding period of the previous year.

Loss/Profit Before Tax

During the reporting period, the Group's loss before tax was approximately RMB443 million, as compared to a profit of RMB1,666 million for the corresponding period of 2011. Loss margin before tax was 1.92%, as compared with profit margin before tax of 5.59% in the corresponding period of 2011.

Income Tax Expense

During the reporting period, the Group's income tax expense was approximately RMB92 million, lower than the RMB422 million for the corresponding period of 2011. Management considers that the effective tax rate applied to the Group for the reporting period is reasonable.

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

During the reporting period, the Group's loss attributable to owners of the parent company was approximately RMB501 million, as compared to a profit of RMB1,252 million for the corresponding period of last year. Net loss margin was 2.17%, as compared to net profit margin of 4.20% for the corresponding period of the previous year. Basic loss per share attributable to owners of the parent company was RMB0.03, as compared to basic earnings per share attributable to owners of the parent company of RMB0.074 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 RMB8,232 million, representing an increase of 37.87% as compared to RMB5,971 million as at the end of 2011, the increase was due to effective inventory and payment control and the cash settled from "exchange old for new program" receivables during the period.

Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB6,853 million, down 28.80% as compared to RMB9,625 million at the end of 2011. Inventory turnover days increased to approximately 74 days in the reporting period from 58 days in the first half of 2011, which was mainly attributable to the expansion of second-tier markets, the longer logistics supply chain and as a result of decrease in sales revenue.

Prepayments, Deposits and Other Receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB2,625 million, down 29.59% from RMB3,728 million as at the end of 2011, which was mainly due to collection of "exchange old for new program" receivables during the period.

Trade and Bills Payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB14,923 million, down 12.93% from RMB17,140 million as at the end of 2011. Turnover days of trade and bills payables were approximately 144 days, up by 21 days as compared to 123 days for the corresponding period of 2011.

Capital Expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB456 million, representing a 20.95% increase as compared to RMB377 million in the first half of 2011. The increase was mainly due to remodelling of stores and payments in relation to ERP system by the Group during the period.

Cash Flows

During the reporting period, the Group's net cash flows generated from operating activities amounted to approximately RMB3,002 million, up by 24.93% as compared to RMB2,403 million in the corresponding period of last year, mainly due to the effective inventory and payment control and the collection of "exchange old for new program" receivables during the period.

Net cash flows used in investing activities amounted to approximately RMB430 million, representing a decrease of 8.51% as compared to RMB470 million in the first half of 2011.

As the Group's convertible bonds were redeemed during the reporting period, net cash flows used in financing activities amounted to approximately RMB322 million, as compared with RMB207 million net cash flows generated in the first half of 2011.

Charge on Group Assets

As at the end of June 2012, the Group's bills payable and interest-bearing bank loan were secured by the Group's time deposits amounting to RMB3,893 million, certain inventories with a carrying value of RMB540 million and certain self-used properties and investment properties with a carrying value of RMB1,495 million. The Group's bills payable and interest-bearing bank loan amounted to RMB9,502 million in total.

Contingent Liabilities and Capital Commitments

Except for the guarantees of approximately RMB366 million given to banks in connection with bill facilities granted in favour of Dazhong Appliances which was not provided in the interim financial information, the Group had no material contingent liabilities. However, the Group had capital commitments of approximately RMB91 million.

Foreign Currencies and Treasury Policy

All the Group's income and a majority of its expenses were denominated in Renminbi. The Group has adopted effective measures to reduce its foreign exchange 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 an interest-bearing bank loan. Convertible bonds were mainly denominated in Renminbi with fixed coupon and borrowing rates and interest-bearing bank loan was mainly denominated in USD with floating rates.

As at the end of June 2012, the total borrowings of the Group, being interest-bearing bank loan and convertible bonds, amounted to approximately RMB3,136 million. Pursuant to the bond subscription agreement, the convertible bonds are redeemable at the option of the bondholders in September 2012. The interest-bearing bank loan will be repayable within one year. The Group's financing activities continue to be supported by its bankers.

As at 30 June 2012, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to RMB3,136 million over total equity amounting to RMB15,366 million, increased to 20.41% from 13.27% as at 31 December 2011.

EXCELLENT HUMAN RESOURCES

The Group has always highly valued human resources management and development. It had 41,744 employees in total as at the end of June 2012. With the growing scale of the business and a more intricate approach to management, the Group has strengthened and refined its human resource management by providing comprehensive knowledge and business skills training for employees at all levels. It also continues to motivate employees to compete for key positions, recruit new talent, and promote career development by giving opportunities to employees eager to progress and an avenue for capable ones to shine.

OUTLOOK AND PROSPECTS

The year 2012 presents both opportunities and challenges. In the first half, the Chinese domestic home appliance retail sector was under tremendous pressure due to the complex and volatile economic environment, slow global economic recovery and slowing economic growth in China, in addition to the intensifying industry competition. However, the sector has started embracing new opportunities with the gradual pick-up of the real estate sector, and as China further loosens its macro-economic controls and implements pro-citizen policies, such as the energy-efficient home appliances subsidy scheme, small appliances and kitchenware appliances subsidy program.

In line with the changes in the industry landscape, the Group continues its effort in becoming the most valuable and competitive multi-channel retailer with focus on consumer demand. Same store sales growth will be the priority in the first-tier market while greater importance is attached in network expansion in second-tier market; together with accelerated development on the e-commerce platform, the three channels will all leverage on the integrated procurement, logistics, after-sales and IT platforms in order to maximize gross profit and efficiency with optimized cost.

The Group is committed to optimizing its store network and will raise its overall operational efficiency by launching flagship stores in the core business districts of first tier market. It will identify locations for new stores according to the store category and requisite standard floor space in regional business districts, and expand to economically developed second tier market at the right time and focus on the profitability of new stores. With respect to individual stores, the Group will continue to improve its super flagship stores, flagship stores, standard stores and best-selling stores through managing stores by their tier and category, with an eye on improving year-on-year performance indicators. For marketing campaigns, apart from event marketing, joint marketing with manufacturers and high-margin individual product marketing, the Group will carry out store-based community marketing to enhance the effectiveness of marketing programmes. The Group continues to enhance in-store product mix and promote the sales of differentiated products to achieve same-store growth targets. In addition, the Group will continue to adjust its cost structure through optimizing the size of its stores through subleasing, rental reduction and lease termination to lower rental expenses.

Following aggressive marketing for the Group's two e-commerce sites – COO8.com and gome.com.cn – during the reporting period, the Group will continue to focus on developing its e-commerce business. It is confident that the business model, which integrates "B2C + physical stores", will succeed by leveraging the size of its physical store network to further appeal to the target audiences for online shopping. This will lead the e-commerce platform to develop into the most powerful online sales network in the sector, after which, the Group will lead the way for the future development of the electrical appliance industry, meet the needs of emerging consumer groups in electrical appliances and continuously explore new growth drivers for consumption.

For supply chain management, focus will be placed on the transition towards product management from supplier management, and procurement will be led by consumer demand. The Group will build a supply chain by pursuing ODM/OEM and the exclusive sale of one-step priced products, which will strengthen its management and control of the supply chain. Meanwhile, it will focus on joint marketing activities with suppliers. The Group will also open its ERP information-based platform to promote information-sharing with suppliers on orders, inventory, reconciliation, settlement and other aspects to deepen cooperation and overhaul its business while stepping up its supply chain management.

To support the developmental needs of its physical stores and e-commerce business, the Group has already embarked on the construction of regional logistics centers and conducted extensive research and analysis relating to logistics during the reporting period. In the second half of 2012, the Group will expedite the site selection and construction of the logistics centers, and will continue to raise the standards of logistics and after-sales services upon completion of the new ERP system. This will enable effective resource sharing across the physical and online stores to promote core operational excellence and maintain the Group's lead in the future development of the sector.

The management believes that, the most valuable and most competitive retail business model will be the multi-channel platform which integrates offline and online business by sharing their information, procurement, logistics, delivery, warehousing, customer experiences and the supplier chain.

INTERIM DIVIDEND AND DIVIDEND POLICY

The Board does not recommend the payment of an interim dividend so as to preserve capital for funding needs of the Group.

Currently, the Board anticipates that the dividend payout ratio will be maintained at 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.

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

On 18 May 2012 and 27 June 2012, the Old 2014 Convertible Bonds with an aggregate principal amounts of RMB74,400,000 and RMB75,000,000, respectively were redeemed. The bonds redeemed were cancelled. As at 30 June 2012, no Old 2014 Convertible Bonds were outstanding.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six-month period ended 30 June 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Old CG Code") as set out in Appendix 14 to the Listing Rules for the period between 1 January and 31 March 2012 and save for the following deviation, the new Corporate Governance Code (the "New CG Code") as set out in Appendix 14 to the Listing Rules coming into effect from 1 April 2012 for the period between 1 April and 30 June 2012.

According to Code Provision A.6.7 of the New CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings of the Company. Mr. Sze Tsai Ping, Michael being an independent non-executive Director and Mr. Ian Andrew Reynolds being a non-executive Director at the time were absent from the annual general meeting of the Company held on 28 June 2012 for conflicts of time with other personal appointments. Thus, this is a deviation from Code Provision A.6.7 of the New CG Code. Mr. Ian Andrew Reynolds retired as a non-executive Director at such annual general meeting.

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 condensed consolidated financial information of the Group for the six-month period ended 30 June 2012 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 2012 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, 31 August 2012

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

* *For identification purpose only*