Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

GOME Electrical Appliances Holding Limited (the "Company") is incorporated in Bermuda with limited liability. 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. In the opinion of the directors, the ultimate holding company is Shining Crown Holdings Inc., which is incorporated in the British Virgin Islands.

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

On 29 March 2006, the Company and Gome Holdings Limited (the "Vendor") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Group has acquired from the Vendor the entire equity interest of Grand Hope Investment Limited ("Grand Hope") which in turn owns a 35% equity interest in Gome Appliance Co., Limited ("Gome Appliance") and the shareholder's loan in the amount of HK$225,014,672 due from Grand Hope for a total consideration of approximately HK$6,986.7 million. The Vendor is ultimately and wholly owned by Mr. Wong Kwong Yu ("Mr. Wong"), the substantial shareholder and Chairman of the Company. The consideration of HK$6,986.7 million was satisfied (i) to HK$5,235.3 million by the issue of 650,347,000 of the Company's shares at a nominal issue price of HK$8.05 each to the Vendor; (ii) to HK$761.4 million (equivalent to approximately RMB793,445,000) by the set-off against the amount due from Kashmac Int'l Ltd. (note 15(ii)), a related party; and (iii) to HK$990 million (equivalent to approximately RMB1,019.7 million) in cash. The acquisition transaction was completed on 8 May 2006 upon the fulfillment of relevant conditions prescribed by the Acquisition Agreement.

Gome Appliance was registered in the PRC on 2 April 2003 as a limited liability company and is the holding company of the Group's electrical appliances and consumer electronic products retailing business in the PRC. Before the completion of the transaction, Gome Appliance was owned as to 65% by the Group and 35% by Mr. Wong through the Vendor's wholly-owned subsidiary, Grand Hope, a company incorporated in the British Virgin Islands with limited liability. Upon the completion of the transaction, the Group has the entire equity interest in Gome Appliance.

As the 35% equity interest in Gome Appliance that has been acquired by the Group during the current period was controlled and beneficially owned by Mr. Wong, the controlling shareholder of the Company before and after the completion of the transaction, the transaction is accounted for in the Interim Condensed Consolidated Financial Report as a transfer of assets between entities under common control. An entity that receives the net assets or the equity interests shall recognise the assets and liabilities received at their carrying amounts in the accounts of the transferring entity at the date of transfer.

As set out in note 1 to the Group's annual financial statements for the year ended 31 December 2005, the Group has changed its presentation currency from Hong Kong dollars to Renminbi. As a result, the Company's Interim Condensed Consolidated Financial Report is presented in Renminbi, which is different from the presentation currency of the Company's interim condensed consolidated financial report for the six months ended 30 June 2005 which was Hong Kong dollars.

The comparative amounts to the Interim Condensed Consolidated Financial Report have been adjusted to achieve comparability with the current period. The restatement of the comparative amounts from Hong Kong dollars to Renminbi had no material impact on the Group's Interim Condensed Consolidated Financial Report for the periods presented.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

2. BASIS OF PREPARATION

The interim condensed consolidated financial report for the six months ended 30 June 2006 (the "Interim Condensed Consolidated Financial Report") has been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The Interim Condensed Consolidated Financial Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2005.

3. REVENUE AND OTHER INCOME

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

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
		(note 1)
Sale of electrical appliances and consumer electronic products	**12,167,820**	8,276,463
Others	**–**	4,326
	12,167,820	8,280,789

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

3. REVENUE AND OTHER INCOME *(continued)*

(b) Other income comprises the following:

	Note	For the six months ended 30 June 2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000 (Restated) *(note 1)*
Income from suppliers:			
Promotion income		**205,382**	127,877
Management fee income		**49,054**	36,298
Display space leasing fees		**47,368**	30,912
Product listing fees		**29,895**	18,832
Management fee from the Parent Group*	*26(a)(ii)*	**102,127**	65,693
Management fees for air-conditioner installation		**22,486**	20,793
Government grants**		**12,849**	12,112
Other income		**18,343**	20,979
		487,504	333,496

* The Parent Group is defined in note 26 to the Interim Condensed Consolidated Financial Report.

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

4. SEGMENT INFORMATION

During the period, over 90% of the Group's revenue and results were derived from the retailing of electrical appliances and consumer electronic products in the PRC, and therefore no segment analysis has been presented.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

5. PROFIT BEFORE TAX

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

		For the six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
			(Restated)
			(note 1)
Cost of inventories recognised as expenses		**11,011,966**	7,565,805
Depreciation		**49,666**	19,769
Amortisation of intangible assets		**1,295**	–
Minimum lease payments under operating leases in respect of land and buildings		**372,951**	173,080
Fair value gain on the derivative component of convertible bonds	*6,17*	**(54,237)**	–
Transaction cost related to derivative component of convertible bonds		**2,731**	–
Auditors' remuneration		**1,962**	1,924
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		**256,389**	138,980
Pension scheme contributions		**33,264**	14,016
Social welfare and other costs		**26,233**	16,017
		315,886	169,013

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

6. FINANCE (COSTS)/INCOME

		For the six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
			(Restated)
			(note 1)
Finance costs:			
Interest expenses on the convertible bonds	*17*	**(27,661)**	–
Finance income:			
Bank interest income		**53,957**	19,468
Other interest income		**12,376**	1,521
		66,333	20,989
Fair value gain on derivative component of convertible bonds	*5,17*	**54,237**	–
		120,570	20,989

7. INCOME TAX

The major components of income tax in the Interim Condensed Consolidated Financial Report are:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
		(note 1)
Current income tax:		
Hong Kong	**4,651**	308
PRC	**53,480**	43,813
Deferred income tax	**532**	–
	58,663	44,121

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

7. INCOME TAX *(continued)*

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 33% on their respective taxable income. The determination of current and deferred income taxes was based on the enacted tax rates.

The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the respective periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2006, the Group acquired buildings at a total cost of RMB250 million, leasehold improvements at a total cost of RMB76 million, motor vehicles at a total cost of RMB4 million, and equipment and fixtures at a total cost of RMB44 million. Fixed assets with a net book value of RMB340,000 were disposed of during the six months ended 30 June 2006.

As at 30 June 2006, the legal formalities for the transfer of title of certain properties in the PRC, which have been acquired by the Group from certain independent third parties with an aggregate carrying value of RMB217 million, were still in progress. The directors are confident that these matters can be resolved before the end of 2006 without any material effect on the Group's results of operations and financial position.

9. INVESTMENT PROPERTIES

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
At 1 January	**5,200**	5,300
Exchange adjustment	**(50)**	(100)
At 30 June/31 December	**5,150**	5,200

Investment properties comprise an industrial property and a car park that are leased to a related party (note 26(b)(iv)) and a third party, respectively.

Investment properties are stated at fair value. The fair value of investment properties at 31 December 2005 was determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at 31 December 2005. The directors consider there was no material change to the fair value of investment properties between 31 December 2005 and 30 June 2006.

Investment properties are located in Hong Kong under medium term leases.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

10. INTANGIBLE ASSETS

As at the balance sheet date, the Group had the following intangible assets:

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Goodwill	*(i)*	**36,160**	7,300
Trademark	*(ii)*	**24,620**	25,915
		60,780	33,215

Notes:

(i) The additions to goodwill during the six months ended 30 June 2006 are attributable to the acquisition of Nanjing Pengze Home Appliance Co., Ltd. ("Nanjing Pengze") and Shenzhen eHome Commercial Chain Co., Ltd. ("eHome") which gave rise to goodwill of RMB5,874,000 and RMB22,986,000 (note 21), respectively.

The balance of goodwill as at 31 December 2005 was attributable to the acquisition of Wuhan Zhongshang Group Co., Ltd. in 2005.

(ii) The trademark arising from the acquisition of Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd. in 2005 of RMB25,915,000 is amortised on the straight-line basis over the directors' estimate of its useful economic life of 10 years.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

11. DEFERRED INCOME TAX ASSETS/LIABILITIES

The principal components of the Group's deferred income tax assets and liabilities at 30 June 2006 and the movements in deferred income tax for the six months ended 30 June 2006 are as follows:

	Balance at 31 December 2005 (Audited) RMB'000	Recognised in the income statement RMB'000	**Balance at 30 June 2006 (Unaudited) RMB'000**
Deferred income tax assets:			
Tax losses	13,018	(532)	**12,486**

	Balance at 31 December 2005 (Audited) RMB'000	Recognised as intangible assets RMB'000	**Balance at 30 June 2006 (Unaudited) RMB'000**
Deferred income tax liabilities:			
Goodwill *(note 21(a))*	–	5,874	**5,874**

12. INVENTORIES

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Merchandise for resale	**2,693,100**	2,681,118
Consumables	**47,727**	44,257
	2,740,827	2,725,375

13. TRADE RECEIVABLES

The balance of the trade receivables was fully settled subsequent to the balance sheet date.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Prepayments	**130,707**	111,300
Advances to suppliers	**87,192**	236,070
Deposits and other receivables	**159,814**	119,647
	377,713	467,017

15. DUE FROM RELATED PARTIES

	Notes	**30 June 2006 (Unaudited) RMB'000**	31 December 2005 (Audited) RMB'000
Receivables from the Parent Group	*(i)*	**5,059**	46,612
Due from Kashmac Int'l Ltd.	*(ii)*	**–**	793,445
Others		**74**	19
		5,133	840,076

Notes:

(i) These balances mainly represented the management fee due from the Parent Group (note 26(a)(ii)). The aforesaid balances were interest-free unsecured and were fully settled subsequent to the balance sheet date.

(ii) The balance as at 31 December 2005 represented the consideration receivable in respect of the disposal of a property project in Beijing and related accrued interest income. The balance was fully settled by offsetting against the Group's consideration for the acquisition transaction as set out in note 1 to the Interim Condensed Consolidated Financial Report.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

16. SHARE CAPITAL

	Number of shares '000	HK$'000	RMB'000
Authorised:			
Ordinary shares of HK$0.1 each	50,000,000	5,000,000	5,300,000
Issued and fully paid:			
At 1 January 2006	1,642,447	164,245	174,099
Consideration shares *(note)*	650,347	65,035	66,986
At 30 June 2006	2,292,794	229,280	241,085

Note:

The 650,347,000 consideration shares were issued in respect of the acquisition of a 35% equity interest in Gome Appliance. Details of the acquisition are disclosed in note 1 to the Interim Condensed Consolidated Financial Report.

17. CONVERTIBLE BONDS

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

Pursuant to the Subscription Agreement, the Bonds are:

i) convertible at the option of the bondholders into fully paid ordinary shares on or after 1 September 2006 and up to and including 7 February 2011 at a conversion price of US$0.8251 (equivalent to approximately RMB6.60) per share;

ii) redeemable at the option of the bondholders at 105.49% of their principal amount on the third anniversary of the issue date of the Bonds at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued; and (3) a premium of 5.49% on the principal amount; and

iii) at the option of the Company to request the bondholders for mandatory conversion of the convertible bonds on or after the third anniversary of the issue date with an amount equal to US$62.5 million less the sum of the aggregate principal amount of the Bonds that have been converted or redeemed; provided that no such conversion may be made unless the volume-weighted average of the prices of the Company's shares for 30 trading days on which the shares were traded prior to the date upon which the Company's notice of the mandatory conversion is given was not less than 130% of the then prevailing conversion price.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

17. CONVERTIBLE BONDS *(continued)*

The Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principle amount outstanding; (2) the interest accrued; and (3) a premium calculated at 9.48% on the principal amount. In addition, the Company may redeem the outstanding bonds if the principal amount of the bonds outstanding is equal to or less than US$12,500,000.

The proceeds from the issuance of the Bonds on 1 March 2006 of US$125 million (equivalent to RMB999,950,000) have been split into liability and derivative components. On issuance of the convertible bonds, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative component of the liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issuance date and any subsequent changes in fair value of the derivative component as at the balance sheet date are recognised in the income statement.

The fair values of the derivative component at the issuance date and at 30 June 2006 are determined based on the valuations performed by Vigers Appraisal & Consulting Limited using the applicable option pricing model. Changes in fair value of that component between the issuance date and the balance sheet date is recognised in the consolidated income statement. Details of the net proceeds received from the issue of the convertible bonds that have been split between the derivative and liability components are analysed as follows:

	30 June 2006 (Unaudited) RMB'000
Nominal value of convertible bonds issued during the period (US$125,000,000)	**999,950**
Transaction cost related to liability component	**(6,194)**
Derivative component at the issuance date	**(305,979)**
Liability component at the issuance date	**687,777**
Interest expenses on convertible bonds *(notes 6 and 23)*	**27,661**
Liability component at 30 June 2006	**715,438**
Derivative component at the issuance date	**305,979**
Fair value adjustment *(notes 5, 6 and 23)*	**(54,237)**
Derivative component of convertible bonds at 30 June 2006	**251,742**

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

18. WARRANTS

Pursuant to the Subscription Agreement as disclosed in note 17 above, on 1 March 2006, the Company issued warrants at a subscription price of US$3,000,000 (equivalent to RMB24,102,000). The Subscriber is entitled to subscribe in aggregate a maximum amount of US$25 million for new shares of the Company at an exercise price of HK$7.70 (equivalent to RMB7.90) during an exercise period of five years from 1 March 2006. The net proceeds from the issuance of the warrants (net of issuance costs of RMB1,785,000) of RMB22,317,000 are recognised by the Company as equity and are not subsequently remeasured at the balance sheet date until the exercise of the warrants.

None of the warrants were exercised during the period ended 30 June 2006.

19. TRADE AND BILLS PAYABLES

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Trade and bills payables arising from retailing operations	**8,356,307**	6,805,277
Outstanding balance, aged:		
Within three months	**5,886,193**	4,345,608
Within three to six months	**2,393,507**	2,375,118
Over six months	**76,607**	84,551
	8,356,307	6,805,277

The Group's bills payable as at 30 June 2006 were secured by the pledge of certain of the Group's time deposits and by corporate guarantees provided by certain related companies (note 26(b)(i)).

20. DUE TO A RELATED PARTY

The amounts due to a related party as at 31 December 2005 and 30 June 2006 represented the rent payables, which were unsecured, interest-free and payable within one year.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

21. BUSINESS COMBINATIONS

(a) On 11 January 2006, the Group acquired a 100% equity interest in Nanjing Pengze, a limited liability company registered in the PRC, from certain independent third parties. The fair values of the identifiable assets of Nanjing Pengze as at the date of acquisition was as follows:

	Fair value recognised on acquisition	**Carrying amount**
	RMB'000	RMB'000
Properties*	173,800	156,000
Cash and cash equivalents	250	250
Deferred tax liabilities arising from acquisition	(5,874)	–
Fair value of net assets	168,176	156,250
Goodwill on acquisition *(note 11)*	5,874	
Cash consideration	174,050	

* The fair value of the properties was determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at the acquisition date.

An analysis of the net cash outflow in respect of the acquisition is as follows:

	RMB'000
Total cash consideration	174,050
Deposit paid in 2005	(126,000)
	48,050
Cash and bank balances acquired	(250)
Net cash outflow during the current period	47,800

As the transaction is effective from 11 January 2006, the profit and revenue of the Group would not be materially different from the amounts presented in the Interim Condensed Consolidated Financial Report had the transaction taken place at the beginning of the period.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

21. BUSINESS COMBINATIONS *(continued)*

(b) On 23 June 2006, the Group acquired a 100% equity interest in eHome from independent third parties. The fair values of the identifiable assets of eHome as at the date of acquisition was as follows:

	Fair value recognised on acquisition	**Carrying amount**
	RMB'000	RMB'000
Property, plant and equipment	18,112	18,112
Inventories	65,374	65,374
Trade and other receivables	22,515	22,515
Pledged deposits	1,404	1,404
Cash and cash equivalents	2,482	2,482
Trade and other payables	(7,873)	(7,873)
Fair value of net assets	102,014	102,014
Goodwill on acquisition	22,986	
Cash consideration	125,000	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of business is as follows:

	RMB'000
Total cash consideration	125,000
Deposit paid in 2005	(35,000)
	90,000
Cash and bank balances acquired	(2,482)
Net cash outflow during the current period	87,518

As the acquisition is effective from 23 June 2006, the contribution to the net profit of the Group from eHome was not material for the current period. If the business combination had taken place at the beginning of the period, the net profit and revenue for the Group would have been increased by RMB11.5 million and RMB310 million, respectively.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

22. DIVIDENDS

	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
		(note 1)
Declared and paid		
Final dividend per share for 2005: HK4.3 cents (equivalent to RMB4.5 fen) (2004: HK2.5 cents (equivalent to RMB2.7 fen))	**73,450**	43,525
Proposed (not recognised as a liability as at 30 June)		
Interim dividend per share for 2006: HK4.2 cents (equivalent to RMB4.3 fen) (2005: HK4.2 cents (equivalent to RMB4.4 fen))	**99,186**	71,742

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

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

Diluted earnings per share amount is calculated by dividing the net profit attributable to ordinary equity holders of the parent, (adjusted to add the bank interest on convertible bonds and deducting fair value gain on the derivative component of convertible bonds) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

23. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

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

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
		(note 1)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	**344,531**	237,669
Interest expenses on convertible bonds *(notes 6 and 17)*	**27,661**	–
Fair value gain on the derivative component of convertible bonds *(notes 6 and 17)*	**(54,237)**	–
Net profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds	**317,955**	237,669

	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	'000	'000
Shares		
Weighted average number of ordinary shares for basic earnings per share	**1,832,880**	1,642,447
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**102,114**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**1,934,994**	1,642,447

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

Note:

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

24. CONTINGENT LIABILITIES

As at the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

25. COMMITMENTS

OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee

As at the balance sheet date, the Group had the following minimum lease payments under non-cancelable operating leases falling due as follows:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within one year	**804,952**	633,299
In the second to fifth years, inclusive	**3,281,308**	2,150,468
After five years	**2,209,855**	1,592,805
	6,296,115	4,376,572

Operating lease commitments – Group as lessor

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

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within one year	**30,347**	27,841
In the second to fifth years, inclusive	**47,985**	37,907
After five years	**23,017**	18,213
	101,349	83,961

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in this Interim Condensed Consolidated Financial Report, the Group had the following significant transactions with the Parent Group and Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji"). The Parent Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd. and other companies which engage in the retailing 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 Parent Group are controlled by Mr. Wong. Beijing Xinhengji is owned by the family members of Mr. Wong.

(a) Continuing transactions:

		For the six months ended 30 June	
	Notes	**2006 (Unaudited) RMB'000**	2005 (Unaudited) RMB'000 (Restated) *(note 1)*
Sales to the Parent Group	*(i)*	**7,733**	319,693
Purchases from the Parent Group	*(i)*	**(2,182)**	(144,390)
Provision of management and purchasing services to the Parent Group	*(ii)*	**102,127**	65,693
Rental expenses to Beijing Xinhengji	*(iii)*	**(1,650)**	(1,691)
Sublease income from audio and visual stores of the Parent Group	*(iv)*	**21,382**	13,746

Notes:

(i) The sale and purchase transactions entered into between the Group and the Parent Group in respect of the retailing of electrical appliances and consumer electronic products were conducted based on the actual purchase cost from the Group's third party suppliers.

(ii) The Group provides management services to the Parent Group in respect of the retailing of electrical appliances and consumer electronic products in cities other than the designated cities of the PRC in which the Group operates. In addition, the Group negotiates with various suppliers for both the Group and the Parent Group on a centralised basis. The total amount of management service fees and purchasing service fees was charged based on 0.6% and 0.9%, respectively, of the total turnover of the Parent Group, pursuant to a management agreement and a purchase service agreement entered into between the Group and the Parent Group.

(iii) On 1 January 2006, the Group entered into a rental agreement with Beijing Xinhengji to lease the properties for a term of three years at an annual rental of approximately RMB3.7 million. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices within the same district.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

26. RELATED PARTY TRANSACTIONS *(continued)*

(a) Continuing transactions: (continued)

(iv) The Parent Group has set up counters in the retail outlets operated by the Group for selling audio and visual products. The Parent Group has entered into sublease agreements with each of the individual outlets of the Group. According to the sublease agreements, the rent is charged at (1) approximately RMB12 per square metre per day and (2) 5% of the total revenue generated from the sale of audio and visual products.

(b) Discontinued transactions:

		For the six months ended 30 June	
	Notes	**2006 (Unaudited) RMB'000**	2005 (Unaudited) RMB'000 (Restated) *(note 1)*
Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of bills facilities *(note 19)*	*(i)*	**720,000**	457,143
Interest income on the amount due from Kashmac Int'l Ltd.	*(ii)*	**12,376**	–
Rental expenses to a related party	*(iii)*	**(480)**	(509)
Rental income from a related party	*(iv)*	**108**	114

Notes:

(i) The provision of corporate guarantees is at Nil consideration. The Group intends to replace the aforesaid guarantees as soon as it is practical.

(ii) The amount represented interest income on the receivable in respect of the disposal of a property project in Beijing. The interest rate was 4.5% per annum. The outstanding balance of the receivable was fully settled during the current period.

(iii) The Company paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited ("Hong Kong Gome"), a controlled company of Mr. Wong, totalling HK$480,000 during the period (six months ended 30 June 2005: HK$480,000).

(iv) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's factory premises (note 9) from Hong Kong Gome, a controlled company of Mr. Wong, totalling HK$108,000 during the period (six months ended 30 June 2005: HK$108,000).

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

26. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation of key management personnel (as defined under IAS 24, Related Party Disclosures) of the Group:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
		(note 1)
Fee	**386**	259
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**5,955**	4,707
Pension scheme contributions	**84**	65
	6,425	5,031

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits, pledged deposits, bills payable and convertible bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

(i) Credit risk

The cash at banks, other financial assets, pledged deposits, prepayments, deposits amounts, due from related parties and other receivables included in the Interim Condensed Consolidated Financial Report represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

Since most of the Group's sales are on cash or credit card basis, and the Group only deals with recognised and creditworthy third parties, there is no requirement for collateral.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

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

(ii) Interest rate risk

Save as disclosed in note 17 to the Interim Condensed Consolidated Financial Report, the Group has no other significant interest rate risks.

(iii) Foreign currency risk

The Group's businesses are principally conducted in RMB which cannot be freely exchanged into foreign currencies. As at 30 June 2006, a substantial amount of the Group's assets and liabilities were denominated in RMB. The Company's functional currency is Hong Kong dollars. In addition, the Group's convertible bonds and issued warrants were denominated in United States dollars. Fluctuation of the exchange rates of RMB against Hong Kong dollars or United States dollars can affect the Group's results of operations.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payable, convertible bonds and other interest-bearing loans. Save as disclosed in note 17 to the Interim Condensed Consolidated Financial Report, the Group had no other borrowings as at 30 June 2006. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

28. POST BALANCE SHEET EVENT

On 25 July 2006, the Company and China Paradise Electronics Retail Limited ("China Paradise") jointly announced a voluntary conditional offer (the "Offer") by the Company to acquire all of the issued shares of China Paradise (the "CP Shares"). The consideration under the Offer is 0.3247 new shares of the Company and HK$0.1736 in cash for each of the CP Shares. According to the Company's announcement dated 25 July 2006, based on the closing price of the Company's shares of HK$6.35 each, as quoted on the Stock Exchange of Hong Kong Limited on 17 July 2006, being the last trading day for the Company's shares before the announcement, and the entire CP Shares of 2,356,629,785 (on a fully diluted basis), the aggregate consideration is valued at approximately HK$5,268 million (approximately RMB5,426 million).

The Offer and the issue of the new shares are subject to the approval of the shareholders of the Company in a forthcoming general meeting.

Save as disclosed above, the Group did not have any significant events taking place subsequent to 30 June 2006.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Report was approved and authorised for issue by the board of directors on 17 August 2006.