INTERIM REPORT 2007

(Stock Code : 493)

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

(Incorporated in Bermuda with limited liability)

Contents

Financial Highlights and Business Summary

Financial Highlights

	1 H 2007 RMBm	1 H 2006 RMBm	Percentage change (%)
Revenue	**21,157**	12,168	73.9%
Gross Profit	**1,942**	1,156	68.0%
Net Profit attributable to Equity Holders of the Company	**395**	345	14.5%
Net Profit attributable to Equity Holders of the Company, excluding the (loss)/gain on the derivative component of convertible bonds	**806**	290	177.9%
Earnings Per Share			
– Basic	**RMB13 fen**	RMB19 fen	(31.6)%
– Diluted	**RMB13 fen**	RMB16 fen	(18.8)%
Earnings Per Share, excluding the (loss) gain on the derivative component of convertible bonds	**RMB26 fen**	RMB16 fen	62.5%

Business Summary

- **Continued enhancement of retail network**
- **Implemented business improvement initiatives**
- **Placement of shares and issue of convertible bonds**

Management Discussion and Analysis

1. BUSINESS SUMMARY

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

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

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

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

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

Management Discussion and Analysis

2. BUSINESS REVIEW

2.1 Development of retail network

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

As at 30 June 2007, the Group's network coverage was as follows:

	Total number within the Group	GOME Appliance	China Paradise
Flagship stores	38	27	11
Standard stores (including supermarket stores)	605	436	169
Specialised stores	11	3	8
Total	654	466	188
Among them:			
First-tier cities	420	293	127
Second-tier cities	234	173	61
The net increase in store number in first half of the year	67	71	(4)
Among them, network improvement:			
GOME Appliance changed to China Paradise	N/A	(4)	4
China Paradise changed to GOME Appliance	N/A	7	(7)
Closed stores	(21)	(10)	(11)
Number of cities entered into cities	168	138	52
Among them:			
First-tier cities	27	21	10
Second-tier cities	141	117	42
The number of cities entered into in the first half of the year	8	18	(8)

Management Discussion and Analysis

As at 30 June 2007, the list of Stores of the Group was as follows:

Region	Flagship stores		Standard Stores (including supermarket stores)		Specialised Stores	
	GOME Appliance	China Paradise	GOME Appliance	China Paradise	GOME Appliance	China Paradise
Beijing	4	–	50	–	–	–
Shanghai	–	5	–	47	–	8
Tianjin	4	–	22	–	–	–
Chengdu	1	–	32	15	–	–
Chongqin	1	–	21	–	–	–
Xian	1	–	17	–	–	–
Shenyang	4	–	16	–	–	–
Qingdao	1	–	15	3	–	–
Jinan	1	–	14	–	–	–
Henan	–	1	–	20	–	–
Shenzhen	1	–	53	–	–	–
Guangzhou	2	1	63	10	1	–
Wuhan	–	–	21	–	–	–
Yunnan	2	–	12	–	1	–
Fuzhou	1	1	35	10	1	–
Xiamen	–	–	–	20	–	–
Hangzhou	–	1	–	12	–	–
Ningbo	–	1	–	8	–	–
Nanjing	1	–	21	–	–	–
Changzhou	1	–	7	–	–	–
Suzhou	1	–	7	–	–	–
Wuxi	–	1	–	14	–	–
Anhui	–	–	12	–	–	–
Xuzhou	–	–	–	10	–	–
Tangshan	–	–	8	–	–	–
Lanzhou	1	–	7	–	–	–
Wenzhou	–	–	3	–	–	–
Sub-total	27	11	436	169	3	8
Total		38		605		11

Besides, as at 30 June 2007, there were 260 stores which belonged to the Parent Group (excluding stores in Hong Kong and Macau) and were not within the structure of the Group.

Management Discussion and Analysis

2.2 Categorization of stores

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

Criteria for store categorization are as follows:

Flagship stores:	These are stores which have reached a certain scale. Individual store sales are ranked among the top 10% of the total among the stores in the region. A flagship store has a strategically good location and wider range of products. It can serve as a regional core store in terms of branding and services. Flagship store represents higher service quality owning a superb shopping environment. Its gross floor area generally ranges from 5,000 to 12,000 square meters complemented with sufficient car parking lots.
Standard store:	These are standard stores with gross floor area generally ranging from 2,500 to 5,000 square meters.
Supermarket store:	These are the sales points in a small region, serving large communities and its peripheral area. Its gross floor area is generally 1,000-2,000 square meters.
Specialised store:	These are stores which sell specific types of products such as mobile phones, computers and other digital products. The gross floor area is usually around 200 square meters.

2.3 Store leases

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

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

Management Discussion and Analysis

2.4 Acquiring quality properties

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

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

2.5 Raising the operating quality of stores

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

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

2.6 Progress of important events

2.6.1 Establishment of a call centre

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

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

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

Management Discussion and Analysis

2.6.2 Extension of Warranty Service

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

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

2.6.3 Household Appliances Hospital Maintenance System

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

2.6.4 Membership System

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

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

2.6.5 Logistic Investment Project

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

3. PLACEMENT OF SHARES AND ISSUE OF CONVERTIBLE BONDS

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

Management Discussion and Analysis

4. FINANCIAL ANALYSIS

4.1 Financial performance

4.1.1 Revenue

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

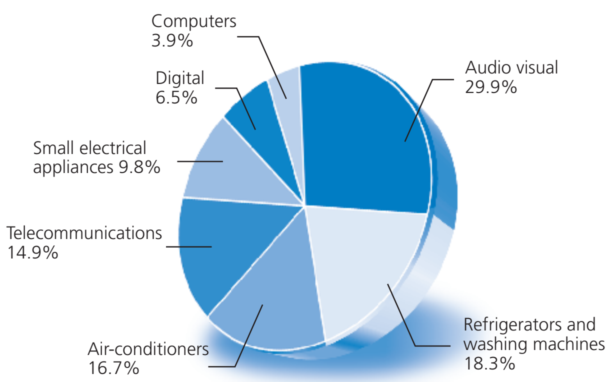
At the end of the reporting period, the Group had a total of 654 stores whereas there were 338 stores in the corresponding period last year. The Group's weighted average sales area for this period was 2.36 million square meters as compared to 1.19 million square meters in the corresponding period last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

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

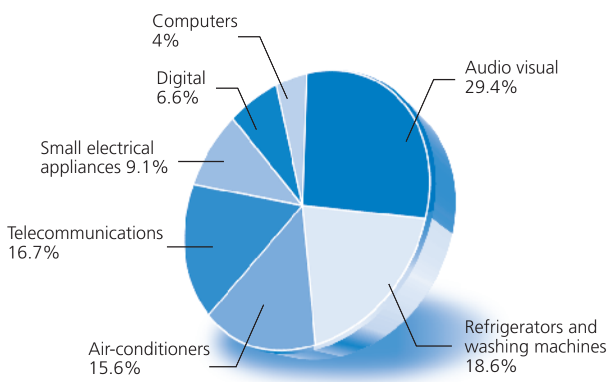
The management also believes that, from the composition of sales for various products, sales of traditional audio visual products, refrigerators and washing machines and air-conditioners still account for the majority of the sales, especially in second-tier cities where the consumption is mainly for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

Sales percentage by Product is as follows:

1st half 2007



1st half 2006



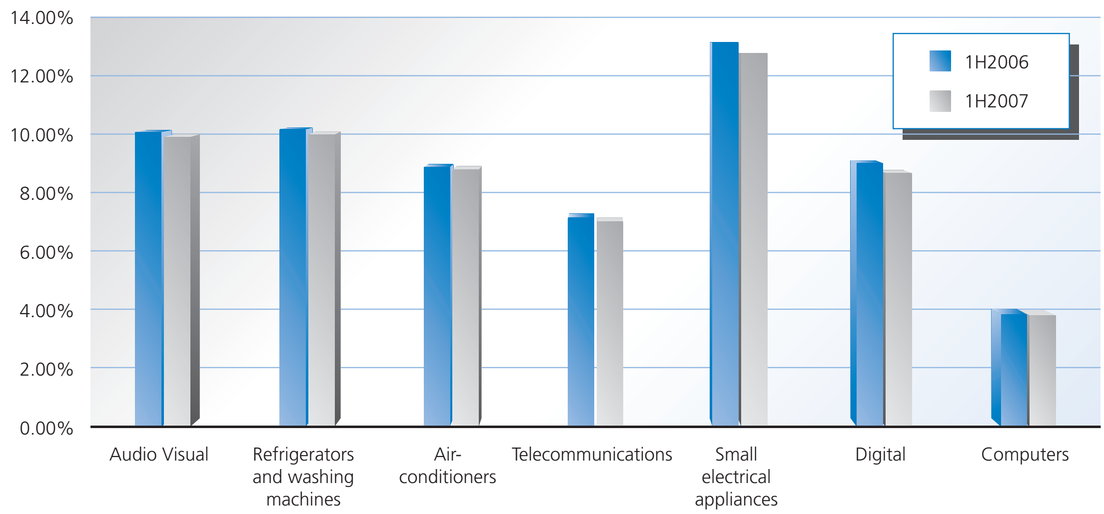
Management Discussion and Analysis

4.1.2 Cost of Sales and Gross Profit

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

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

The gross profit margins for various products were as follows:



4.1.3 Other Income

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

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

Management Discussion and Analysis

The following table shows a summary of other income:

Percentage to sales	**1 H 2007**	1 H 2006
From Suppliers	**4.7%**	2.7%
Management fee from the Parent Group	**0.6%**	0.8%
Administrative fee for installation of Air-conditioners	**0.2%**	0.2%
Others	**0.2%**	0.3%
Total	**5.7%**	4.0%

4.1.4 Adjusted gross margin

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

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

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

4.1.5 Operating expenses

The Group's operating expenses mainly includes selling and distribution costs, administrative expenses and other operating expenses. As a percentage of revenue, operating expenses slightly increased from 10.0% in the corresponding period last year to 10.7% in the reporting period. The following table shows the percentage of operating expense to sales:

	1 H 2007	1 H 2006
	% to sales	% to sales
Selling and distribution costs	**8.0%**	7.8%
Administrative expenses	**1.8%**	1.7%
Other expenses	**0.9%**	0.5%
Total	**10.7%**	10.0%

Management Discussion and Analysis

4.1.5.1 Selling and distribution costs

Selling and distribution costs of the Group mainly comprise of shops rental expenses, staff cost of sales-related staff, advertising, promotional expenses, and utility charges. The following table illustrates the major selling and distribution costs items:

	1 H 2007 **% to sales**	1 H 2006 % to sales
Rental	**3.5%**	3.0%
Salaries	**1.5%**	1.5%
Advertising expenses	**0.6%**	0.7%
Delivery expenses	**0.4%**	0.4%
Promotional expenses	**0.2%**	0.4%
Utility charges	**0.7%**	0.8%
Others	**1.1%**	1.0%
Total	**8.0%**	7.8%

Out of the selling and distribution costs during the reporting period, rental, salaries, advertising expenses, delivery and promotional expenses in aggregate accounted for approximately 6.2% of the sales revenue which was approximately the same as the corresponding period in last year of 6.0%.

4.1.5.2 Administrative expenses

Due to expansion of the Group's operations and the need to enhance more detailed management, there was a rise in administrative expenses. However, the Group has strengthened the its control so that administrative expenses as a percentage of sales only slightly increased from 1.7% of the corresponding period last year to 1.8% during the reporting period.

4.1.5.3 Other expenses

Other expenses of the Group, which mainly comprises bank handling charges, net loss in exchange, additional tax and miscellaneous expenses, were approximately RMB196 million during the reporting period and RMB60 million during the corresponding period last year.

During the reporting period, increase in other expenses was mainly caused by: higher percentage of customers using credit card for payment, resulting in a significant increase in bank handing charges to RMB78 million; net loss in exchange of RMB34 million and additional tax of RMB38 million.

Management Discussion and Analysis

4.1.6 Finance income, net

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

4.1.7 (Loss)/gain on the derivative component convertible bonds

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

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

4.1.8 Profit before tax

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

4.1.9 Income tax

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

4.1.10 Profit attributable to equity holders of the Company

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

4.2 Financial resources

4.2.1 Cash and cash equivalents

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

4.2.2 Inventory

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

Management Discussion and Analysis

4.2.3 Prepayment and other receivables

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

4.2.4 Trade payables and bills payables

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

4.2.5 Indebtedness and leverage

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

4.2.6 Capital expenditures

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

4.2.7 Cash flow

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

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

4.2.8 Pledge of assets

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

Management Discussion and Analysis

4.3 Foreign currencies and treasury policy

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

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

4.4 Human resources

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

5. OUTLOOK

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

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

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

Report on Review of Interim Condensed Consolidated Financial Report

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To the directors of

GOME Electrical Appliances Holding Limited

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial report of GOME Electrical Appliances Holding Limited and its subsidiaries set out on pages 17 to 46, which comprises the interim condensed consolidated balance sheet as at 30 June 2007 and the related interim condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim condensed consolidated financial report in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial report based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed consolidated financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial report is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

23 August 2007

Interim Condensed Consolidated Income Statement

For the six-month period ended 30 June 2007

	Notes	For the six-month period ended 30 June 2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Revenue	3(a)	**21,157,226**	12,167,820
Cost of sales		**(19,215,392)**	(11,011,966)
Gross profit		**1,941,834**	1,155,854
Other income	3(b)	**1,214,483**	487,504
Selling and distribution costs		**(1,687,040)**	(942,405)
Administrative expenses		**(379,512)**	(208,705)
Other expenses		**(196,028)**	(59,652)
Profit from operating activities		**893,737**	432,596
Finance costs	6	**(71,670)**	(27,661)
Finance income	6	**149,328**	66,333
(Loss)/gain on the derivative component of convertible bonds	18	**(410,640)**	54,237
Profit before tax	5	**560,755**	525,505
Tax	7	**(151,412)**	(58,663)
Profit for the period		**409,343**	466,842
Attributable to:			
Equity holders of the parent		**395,391**	344,531
Minority interests		**13,952**	122,311
		409,343	466,842
Dividends	22		
Interim		**254,193**	99,186
Interim dividend per share		**RMB7.8 fen**	RMB4.3 fen
Earnings per share attributable to ordinary equity holders of the parent	23		
– Basic		**RMB13 fen**	RMB19 fen
– Diluted		**RMB13 fen**	RMB16 fen

Interim Condensed Consolidated Balance Sheet

As at 30 June 2007

	Notes	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**2,500,510**	2,206,673
Investment properties		**6,041**	6,229
Goodwill	9	**3,302,584**	3,217,613
Other intangible assets	10	**147,803**	152,324
Other financial assets	15	**40,000**	–
Lease prepayments		**208,360**	61,157
Deferred tax assets		**87,549**	35,095
		6,292,847	5,679,091
Current assets			
Hong Kong listed investments, at fair value		**881**	908
Inventories	11	**4,691,560**	4,882,754
Trade and bills receivables	12	**79,464**	75,189
Prepayments, deposits and other receivables	13	**1,534,429**	1,298,232
Due from related parties	14	**79,739**	189,463
Other financial assets	15	**150,000**	150,000
Pledged deposits	16	**10,352,975**	7,448,755
Cash and cash equivalents	16	**7,267,794**	1,451,837
		24,156,842	15,497,138
TOTAL ASSETS		**30,449,689**	21,176,229
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	17	**338,040**	317,009
Reserves		**8,596,521**	4,724,479
Proposed dividend		**254,193**	110,118
		9,188,754	5,151,606
Minority interests		**63,113**	88,783
Total equity		**9,251,867**	5,240,389
Non-current liabilities			
Deferred tax liabilities		**68,952**	46,954
Convertible bonds	18	**3,659,969**	933,490
		3,728,921	980,444
Current liabilities			
Interest-bearing bank loans	19	**610,000**	729,330
Trade and bills payables	20	**15,155,784**	12,614,613
Customers' deposits, other payables and accruals		**1,410,980**	1,286,431
Due to a related party	21	**238**	120,564
Tax payable		**291,899**	204,458
		17,468,901	14,955,396
Total liabilities		**21,197,822**	15,935,840
TOTAL EQUITY AND LIABILITIES		**30,449,689**	21,176,229

Interim Condensed Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2007

		Attributable to equity holders of the parent										
	Notes	Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Proposed dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
For the six-month period ended 30 June 2007 (unaudited)												
At 1 January 2007		317,009	5,235,209	657	(1,632,736)	368,800	1,639	750,910	110,118	5,151,606	88,783	5,240,389
Exchange realignment		–	–	–	–	–	(44,138)	–	–	(44,138)	–	(44,138)
Total income and expense for the period recognised directly in equity		–	–	–	–	–	(44,138)	–	–	(44,138)	–	(44,138)
Profit for the period		–	–	–	–	–	–	395,391	–	395,391	13,952	409,343
Total income and expense for the period		–	–	–	–	–	(44,138)	395,391	–	351,253	13,952	365,205
Acquisition of outstanding interests of China Paradise	17	1,343	110,092	–	–	–	–	–	–	111,435	(33,642)	77,793
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	(5,980)	(5,980)
Shares issued upon conversion of convertible bonds	18	8,908	827,594	–	–	–	–	–	–	836,502	–	836,502
Issue of 2014 Convertible Bonds	18	–	–	–	1,415,770	–	–	–	–	1,415,770	–	1,415,770
Issue of new shares	17	10,780	1,422,960	–	–	–	–	–	–	1,433,740	–	1,433,740
Share issue expenses		–	(1,434)	–	–	–	–	–	–	(1,434)	–	(1,434)
Dividends paid	22	–	–	–	–	–	–	–	(110,118)	(110,118)	–	(110,118)
Proposed 2007 interim dividend	22	–	–	–	–	–	–	(254,193)	254,193	–	–	–
At 30 June 2007 (unaudited)		338,040	7,594,421*	657*	(216,966)*	368,800*	(42,499)*	892,108*	254,193	9,188,754	63,113	9,251,867

* *These reserve accounts comprise the consolidated reserves of RMB8,596,521,000 in the interim condensed consolidated balance sheet as at 30 June 2007.*

	Attributable to equity holders of the parent										
	Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Proposed dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
For the six-month period ended 30 June 2006 (unaudited)											
At 1 January 2006	174,099	763,050	657	–	216,667	(10,217)	366,630	–	1,510,886	360,408	1,871,294
Exchange realignment	–	–	–	–	–	(7,396)	–	–	(7,396)	–	(7,396)
Total income and expense for the period recognised directly in equity	–	–	–	–	–	(7,396)	–	–	(7,396)	–	(7,396)
Profit for the period	–	–	–	–	–	–	344,531	–	344,531	122,311	466,842
Total income and expense for the period	–	–	–	–	–	(7,396)	344,531	–	337,135	122,311	459,446
Acquisition of minority interests	66,986	–	–	(1,524,721)	–	–	–	–	(1,457,735)	(346,219)	(1,803,954)
Issue of warrants	–	22,317	–	–	–	–	–	–	22,317	–	22,317
Dividends paid	–	–	–	–	–	–	(73,450)	–	(73,450)	–	(73,450)
Dividends of subsidiaries	–	–	–	–	–	–	–	–	–	(136,500)	(136,500)
Proposed 2006 interim dividend	–	–	–	–	–	–	(99,186)	99,186	–	–	–
At 30 June 2006 (unaudited)	241,085	785,367	657	(1,524,721)	216,667	(17,613)	538,525	99,186	339,153	–	339,153

Interim Condensed Consolidated Cash Flow Statement

For the six-month period ended 30 June 2007

		For the six-month period ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**560,755**	525,505
Adjustments for:			
Finance income	6	**(149,328)**	(66,333)
Finance costs	6	**71,670**	27,661
Loss/(gain) on the derivative component of convertible bonds	18	**410,640**	(54,237)
Fair value adjustment to other investments		**27**	–
Depreciation	5	**132,134**	49,666
Loss on disposal of items of property, plant and equipment	5	**4,577**	–
Amortisation of lease prepayments	5	**4,584**	–
Amortisation of intangible assets	5	**4,521**	1,295
Transaction costs related to the derivative component of convertible bonds	5	**–**	2,731
		1,039,580	486,288
Increase in lease prepayments		**(151,787)**	–
Decrease in inventories		**191,194**	49,922
Increase in trade and bills receivables		**(4,275)**	(36,622)
(Increase)/decrease in prepayments, deposits and other receivables		**(189,398)**	111,819
Decrease in amounts due from related parties		**109,724**	43,060
Increase in pledged deposits		**(2,904,220)**	(920,585)
Increase in trade and bills payables		**2,541,171**	1,550,777
Increase in customers' deposits, other payables and accruals		**108,868**	67,577
Decrease in an amount due to a related party		**(120,326)**	(83)
Cash generated from operating activities		**620,531**	1,352,153
Interest received		**116,438**	66,333
Dividends paid		**(110,118)**	(73,450)
Dividends of subsidiaries		**–**	(136,500)
PRC income tax refunded		**–**	5,699
PRC income tax paid		**(94,427)**	(3,195)
Net cash inflow from operating activities		**532,424**	1,211,040

Interim Condensed Consolidated Cash Flow Statement *(continued)*

For the six-month period ended 30 June 2007

	Notes	For the six-month period ended 30 June 2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Net cash inflow from operating activities		**532,424**	1,211,040
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(414,568)**	(181,407)
Proceeds from disposal of items of property, plant and equipment		**5,091**	339
Payment of outstanding considerations for business combinations		**(59,300)**	(148,318)
Acquisition of minority interests		**(13,158)**	(1,019,700)
Net cash outflow from investing activities		**(481,935)**	(1,349,086)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**1,433,740**	–
Share issue expenses		**(1,434)**	–
Issue of convertible bonds	18	**4,600,000**	999,950
Issue of warrants		**–**	24,102
Transaction costs for issuing convertible bonds and warrants	18	**(71,860)**	(10,710)
New bank loans		**200,000**	–
Repayment of bank loans		**(319,330)**	–
Interest paid		**(22,620)**	–
Net cash inflow from financing activities		**5,818,496**	1,013,342
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,868,985**	875,296
Cash and cash equivalents at 1 January		**1,451,837**	1,079,347
Exchange differences		**(53,028)**	268
CASH AND CASH EQUIVALENTS AT 30 JUNE		**7,267,794**	1,954,911
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,802,589**	1,739,733
Non-pledged time deposits with original maturity of less than three months when acquired		**4,465,205**	215,178
Cash and cash equivalents	16	**7,267,794**	1,954,911

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

1. CORPORATE INFORMATION

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

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

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

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

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

Basis of preparation

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

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

The Company's functional currency was the Hong Kong dollar. Because of the magnitude of the Company's Renminbi denominated transactions and financing activities entered into during the current period, the directors determined to change the functional currency of the Company from Hong Kong dollar to Renminbi with effect from 1 January 2007. The effect of the change of the functional currency of the Company has been accounted for prospectively since 1 January 2007.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

2. BASIS OF PREPARATION AND IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Impact of new and revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Report are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2006, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as noted below.

IAS 1 Amendment	–	Capital Disclosures
IFRS 7	–	Financial Instruments: Disclosures
IFRIC 7	–	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*
IFRIC 8	–	Scope of IFRS 2
IFRIC 9	–	Reassessment of Embedded Derivatives
IFRIC 10	–	Interim Financial Reporting and Impairment

The IAS 1 Amendment shall be applied to the Group's consolidated financial statements for the year ending 31 December 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 shall be applied to the Group's consolidated financial statements for the year ending 31 December 2007. The standard requires disclosures that enable users of the consolidated financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

The adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

Impact of issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the Interim Condensed Consolidated Financial Report:

IFRS 8	–	Operating Segments
IAS 23 (revised)	–	Borrowing Costs
IFRIC 11	–	IFRS 2-Group and Treasury Share Transactions
IFRIC 12	–	Service Concession Arrangements
IFRIC 13	–	Customer Loyalty Programmes
IFRIC 14	–	IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

2. BASIS OF PREPARATION AND IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Impact of issued but not yet effective International Financial Reporting Standards *(continued)*

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede IAS 14 *Segment Reporting*.

IAS 23 (revised) shall be applied for annual periods beginning on or after 1 January 2009. The revision to IAS 23 removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. Currently, borrowing costs are recognised by the Group as an expense when incurred. Management consider the change in the accounting policy in the applicable accounting period is unlikely to have a significant impact on the Group's results of operations and financial position.

IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008, 1 July 2008 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 may result in new or amended disclosures and the adoption of IAS 23 will induce a change in the Group's accounting policy in respect of capitalisation of the borrowing costs, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. REVENUE AND OTHER INCOME

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

3. REVENUE AND OTHER INCOME *(continued)*

(b) Other income comprises the following:

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

Notes:

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

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

4. SEGMENT INFORMATION

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

5. PROFIT BEFORE TAX

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

	Notes	**For the six-month period ended 30 June 2007 (Unaudited) RMB'000**	For the six-month period ended 30 June 2006 (Unaudited) RMB'000
Cost of inventories sold		**19,215,392**	11,011,966
Depreciation		**132,134**	49,666
Amortisation of lease prepayments		**4,584**	–
Amortisation of intangible assets		**4,521**	1,295
Loss on disposal of items of property, plant and equipment		**4,577**	–
Minimum lease payments under operating leases in respect of land and buildings		**757,935**	372,951
Gross rental income in respect of investment properties		**254**	–
Loss/(gain) on the derivative component of convertible bonds:			
– 2011 Convertible Bonds	18(i)	**406,940**	(54,237)
– 2014 Convertible Bonds	18(ii)	**3,700**	–
		410,640	(54,237)
Transaction costs related to derivative component of convertible bonds		**–**	2,731
Net exchange loss		**35,477**	2,004
Write-down of inventories to net realisable value		**28,800**	–
Allowance for doubtful debts		**36,785**	–
Compensation for early termination of operating leases		**25,679**	–
Auditors' remuneration		**2,309**	1,962
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		**428,780**	256,389
Pension scheme contributions		**63,069**	33,264
Social welfare and other costs		**59,894**	26,233
		551,743	315,886

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

6. FINANCE (COSTS)/INCOME

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

7. TAX

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 33% on their respective taxable income. During the period, 19 entities (six-month period ended 30 June 2006: 31 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

7. TAX *(continued)*

An analysis of the provision for tax is as follows:

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

8. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2007, the Group acquired items of property, plant and equipment at a total cost of RMB435.6 million. Property, plant and equipment with a net carrying amount of RMB9.7 million were disposed of during the six-month period ended 30 June 2007.

As at 30 June 2007, the legal formality for the transfer of title of a property in the PRC, which have acquired by the Group from an independent third party with an aggregate carrying value of RMB180 million, was still in progress. The directors are confident that this matter can be resolved before the end of 2007 without any material effect on the Group's results of operations and financial position.

Certain of the buildings of the Group were pledged as security for bank loans (note 19) and bills payables (note 20) of the Group as at 31 December 2006 and 30 June 2007. The aggregate carrying amount of the pledged buildings attributable to the Group as at 30 June 2007 amounted to RMB713,616,000 (31 December 2006: RMB327,829,000).

9. GOODWILL

	RMB'000
At 1 January 2007	3,217,613
Acquisition of minority interests	84,971
At 30 June 2007 (unaudited), cost and net carrying amount	3,302,584

The addition to the goodwill during the current period is attributable to the acquisition of the remaining 41,506,320 outstanding issued shares of China Paradise (note 1).

10. OTHER INTANGIBLE ASSETS

These represented unamortised balances of trademarks arising from the business combinations in prior periods.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

11. INVENTORIES

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Merchandise for resale	**4,636,021**	4,825,488
Consumables	**55,539**	57,266
	4,691,560	4,882,754

As at 30 June 2007, certain of the Group's inventories amounting to RMB703 million (31 December 2006: RMB700 million) were pledged as security for the Group's bank loans and bills payable.

12. TRADE AND BILLS RECEIVABLES

The balance of trade and bills receivables as at 30 June 2007 included receivables from Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong") of approximately RMB38,358,000 which arose from the acquisition of China Paradise in 2006. The recovery of the amount can only proceed when the arbitration by the China International Economic and Trade Arbitration Commission (the "CIETAC") is completed (note 24). Other than the balance due from Beijing Dazhong, management consider that there is no significant concentration of credit risk.

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Prepayments	**228,316**	174,234
Advances to suppliers	**972,450**	698,953
Other deposits and receivables	**333,663**	425,045
	1,534,429	1,298,232

14. DUE FROM RELATED PARTIES

	Note	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Receivables from the Parent Group	(i)	**79,530**	136,227
Receivables from jointly-controlled entities		**–**	3,521
Due from previous key management personnel of China Paradise		**–**	49,500
Others		**209**	215
		79,739	189,463

Note:

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

15. OTHER FINANCIAL ASSETS

Non-current assets

The balance of RMB40,000,000 as at 30 June 2007 representing deposits for acquisition of two properties in the PRC. Management estimate these acquisition transactions will be completed during the second half of year 2007.

Current assets

The balance of RMB150,000,000 as at 30 June 2007 represented a deposit to Mr. Zhang Dazhong in respect of a proposed acquisition transaction entered into among Yongle (China) Electronics Retail Co., Ltd. ("Yongle (China)"), a 90% owned subsidiary of China Paradise, Beijing Dazhong and Mr. Zhang Dazhong. The recovery of the deposit can only proceed when the arbitration by the CIETAC is completed. Further details of the event are set out in note 24 to the Interim Condensed Consolidated Financial Report.

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2007	31 December 2006
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Cash and bank balances	**2,802,589**	1,372,455
Time deposits	**14,818,180**	7,528,137
	17,620,769	8,900,592
Less: Time deposits pledged for bills payable	**(7,640,562)**	(6,168,895)
Time deposits pledged for bank acceptance credit	**(2,712,413)**	(1,279,860)
Pledged deposits	**(10,352,975)**	(7,448,755)
Cash and cash equivalents	**7,267,794**	1,451,837

The cash and cash equivalents and time deposits of the Group amounting to RMB10,499,955,000 as at 30 June 2007 (31 December 2006: RMB7,502,880,000) were denominated in Renminbi, which is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

The bank balances of the Group earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group earn interest at the respective short term deposit rates.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

17. ISSUED CAPITAL

	Number of shares		Equivalent to
	'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 2007	3,044,515	304,452	317,009
Shares issued for the acquisition of outstanding interests of China Paradise (note a)	13,477	1,347	1,343
Shares issued upon conversion of convertible bonds (note b)	90,898	9,090	8,908
Shares issued for placement (note c)	110,000	11,000	10,780
At 30 June 2007 (unaudited)	3,258,890	325,889	338,040

Notes:

(a) As part of the consideration for the acquisition of the remaining 41,506,320 outstanding issued shares of China Paradise in January 2007, the Company issued 13,477,075 ordinary shares of the Company.

(b) On 18 May 2007, the 2011 Convertible Bonds (as defined in note 18 to the Interim Condensed Consolidated Financial Report) with a principal amount of US$75 million were converted into 90,898,072 ordinary shares of the Company.

(c) On 21 May 2007, the Company issued 110,000,000 ordinary shares of HK$0.10 each to Shinning Crown Holdings Inc. ("Shinning Crown"), a substantial shareholder of the Company, at a placing price of HK$13.30 per share. Shinning Crown disposed of the entire 110,000,000 ordinary shares of the Company before 30 June 2007.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

18. CONVERTIBLE BONDS

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

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

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

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

18. CONVERTIBLE BONDS *(continued)*

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

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

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

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

On 18 May 2007, the 2011 Convertible Bonds with a principal amount of US$75 million were converted into 90,898,072 new ordinary shares of the Company (note 17). After the conversion, US$50 million of the 2011 Convertible Bonds remained outstanding as at 30 June 2007.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

18. CONVERTIBLE BONDS *(continued)*

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

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

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

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

On 11 May 2007, the Company entered into the bond subscription agreement (the "Bond Subscription Agreement") with Goldman Sachs (Asia) L.L.C ("Goldman Sachs") to issue the RMB denominated USD settled zero coupon convertible bonds due in 2014 in an aggregate principal amount of RMB4,600 million. The settlement of the convertible bonds will be in US dollar using the spot rate prevailing at the date of transaction.

Pursuant to the Bond Subscription Agreement, the 2014 Convertible Bonds are:

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

18. CONVERTIBLE BONDS *(continued)*

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

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

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

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

18. CONVERTIBLE BONDS *(continued)*

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

The movements of the liability component, derivative component and equity component of the 2014 Convertible Bonds for the period from the issue date to 30 June 2007 are as follows:

	Liability component of convertible bonds RMB'000	**Derivative component of convertible bonds** RMB'000	**Equity component of convertible bonds** RMB'000	**Total** RMB'000
Principal amount of convertible bonds issued	3,305,362	(143,600)	1,438,238	4,600,000
Transaction costs	(49,392)	–	(22,468)	(71,860)
Interest expenses	22,440	–	–	22,440
Fair value adjustment	–	3,700	–	3,700
At 30 June 2007 (unaudited)	3,278,410	(139,900)	1,415,770	4,554,280

19. INTEREST-BEARING BANK LOANS

	Interest rate and final maturity	**30 June 2007 (Unaudited) RMB'000**	31 December 2006 (Audited) RMB'000
PRC bank loans – secured, within one year	Fixed interest rates ranging from 5.4% to 6.4% per annum, with maturities before June 2008	**610,000**	729,330

The Group's bank loans are secured by:

(i) the pledge of certain of the Group's buildings, which had an aggregate carrying amount at 30 June 2007 of approximately RMB316,081,000 (31 December 2006: RMB327,829,000) (note 8);

(ii) the pledge of certain of the Group's inventories amounting to RMB703 million (31 December 2006: RMB700 million) (note 11); and

(iii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits amounting to RMB2,712,413,000 (31 December 2006: RMB1,279,860,000) (note 16).

The Group's bank loans are all denominated in RMB.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

20. TRADE AND BILLS PAYABLES

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

The Group's bills payable are secured by:

(i) the pledge of the Group's time deposits amounting to RMB7,640,562,000 (31 December 2006: RMB6,168,895,000) (note 16);

(ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits amounting to RMB2,712,413,000 (31 December 2006: RMB1,279,860,000) (note 16);

(iii) the pledge of certain of the Group's buildings with an aggregate net book value of approximately RMB629,430,000 (31 December 2006: RMB241,063,000) (note 8);

(iv) the pledge of certain of the Group's inventories amounting to RMB703 million (31 December 2006: RMB700 million) (note 11); and

(v) the corporate guarantees provided by the Parent Group and Beijing Xinhengji as at 30 June 2007 (note 26(a)(v)).

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

21. DUE TO A RELATED PARTY

The balance as at 30 June 2007 represented the amount due to a jointly-controlled entity. The balance is unsecured, interest-free and repayable on demand.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

22. DIVIDENDS

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

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

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

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

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

Notes:

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

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

24. CONTINGENT ASSETS AND LIABILITIES

On 19 April 2006, Yongle (China), a 90% owned subsidiary of China Paradise, Beijing Dazhong and Mr. Zhang Dazhong entered into a strategic cooperation agreement (the "Strategic Cooperation Agreement") in respect of the transfer of a 78% equity interest in Beijing Dazhong (the "Dazhong Equity Interest") to Yongle (China). Yongle (China) paid a deposit of RMB150 million to Mr. Zhang Dazhong (the "Deposit") in accordance with the terms and conditions stated in the Strategic Cooperation Agreement.

Pursuant to the Strategic Cooperation Agreement, Mr. Zhang Dazhong is entitled to keep the Deposit if there is a failure on the part of Yongle (China) to fulfil its obligations in relation to the transfer of the Dazhong Equity Interest. If there is a failure on the part of Mr. Zhang Dazhong to fulfil his obligations in the transfer of the Dazhong Equity Interest, Mr. Zhang Dazhong will be required to pay Yongle (China) RMB300 million, being twice the amount of the Deposit. If Mr. Zhang Dazhong transfers any of the Dazhong Equity Interest to a third party within two years after the date of the Strategic Cooperation Agreement, Mr. Zhang Dazhong will be required to pay an additional compensation which will result in Yongle (China) receiving a total amount of RMB450 million, being three times the amount of the Deposit. The Strategic Cooperation Agreement provides that any disputes arising from or in connection with the Strategic Cooperation Agreement shall be determined by arbitration at the CIETAC.

On 17 October 2006, China Paradise received a written notice from Beijing Dazhong in which Beijing Dazhong purported to rescind the Strategic Cooperation Agreement as a result of the acquisition offer which was jointly announced by the Company and China Paradise. Afterwards, China Paradise also received an arbitration request notice from the CIETAC.

China Paradise has been advised by its PRC legal advisers that its exposure would be limited to the loss of the Deposit of RMB150 million together with the costs of arbitration. However, China Paradise's legal advisers have advised that such outcome is unlikely as China Paradise has a strong case against Beijing Dazhong and Mr. Zhang Dazhong for the refund of the Deposit, because the Strategic Cooperation Agreement remains enforceable and effective and Beijing Dazhong has no right to unilaterally terminate the Strategic Cooperation Agreement and to forfeit the Deposit.

On 16 February 2007, Yongle (China) submitted a request to the CIETAC to enforce the merger between Beijing Dazhong and Yongle (China) and if this request is not supported by the CIETAC, Yongle (China) would request Mr. Zhang Dazhong to pay a compensation of RMB300 million including the Deposit paid. As at the date of approval of the Interim Condensed Consolidated Financial Report, the result of the arbitration is pending.

Having considered the advice from China Paradise's PRC legal advisers, the directors are of the opinion that the arbitration is likely to have a favourable impact on the Group and no impairment provision is required for both the Deposit of RMB150 million (note 15) and the balance of the trade receivables due from Beijing Dazhong of RMB38,358,000 (note 12) as at 30 June 2007.

Other than the above, the Group did not have any significant contigent assets or liabilities at the balance sheet date.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

25. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease commitments

As lessee

The Group leases certain of its properties under operating lease arrangements. These leases have an average life of between 1 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	**1,179,977**	1,384,183
In the second to fifth years, inclusive	**3,855,507**	4,645,046
After five years	**2,698,030**	3,383,908
	7,733,514	9,413,137

Pursuant to the relevant lease agreements, upon the payment of early termination compensation rental which in general ranges from 1 to 12 months, the Group is entitled to terminate the underlying lease agreement if a store will not be in a position to continue its business because of the losses or other circumstances as specified under the rental agreements.

As lessor

The Group has entered into commercial property subleases on its leased properties (note 26(a)(iv)). These non-cancellable leases have remaining terms of between 1 and 10 years. All leases include a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions.

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	**58,594**	47,115
In the second to fifth years, inclusive	**156,596**	142,828
After five years	**80,631**	74,429
	295,821	264,372

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

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

(b) Capital commitments

In addition to the operating lease commitments above, the Group had the following capital commitments at 30 June 2007.

	30 June 2007	31 December 2006
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Contracted, but not provided for:		
Acquisition of buildings	787,409	39,705
Authorised, but not contracted for:		
Construction of a warehouse	61,183	61,183

26. RELATED PARTY TRANSACTIONS

In addition to the balances which are disclosed in notes 14 and 21 to 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 are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong Kwong Yu ("Mr. Wong"), the controlling shareholder and Chairman of the Company. Beijing Xinhengji is owned by a family member of Mr. Wong.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

26. RELATED PARTY TRANSACTIONS *(continued)*

(a) The Group had the following transactions with related parties during the period:

		Notes	For the six-month period ended 30 June 2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
(a)	Sales to the Parent Group	(i)	**2,072**	7,733
(b)	Purchases from the Parent Group	(i)	**(1,687)**	(2,182)
(c)	Provision of management and purchasing services to the Parent Group	(ii) & 3(b)	**124,003**	102,127
(d)	Rental expenses to Beijing Xinhengji	(iii)	**(2,083)**	(1,650)
(e)	Sublease income from audio and visual equipment shops of the Parent Group	(iv)	**17,680**	21,382
(f)	Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of the Group's bills facilities	(v)	**860,000**	720,000
(g)	Rental expenses to a related party	(vi)	**–**	(480)
(h)	Rental income from a related party	(vii)	**254**	108

Notes:

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

(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 amounts of the management service fee and the purchasing service fee were charged based on 0.6% and 0.9%, respectively, of the total turnover of the Parent Group, pursuant to a purchase service agreement and a management agreement entered into between the Group and the Parent Group.

(iii) On 20 December 2003, the Group entered into a rental agreement with Beijing Xinhengji to lease properties for a term of two years at an annual rental of approximately RMB3.3 million. On 12 January 2006, the parties renewed the agreement at an rental of approximately RMB4.2 million for a period of three years. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices within the same district.

(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.

Notes to the Unaudited Interim Condensed Consolidated Financial Report

As at 30 June 2007

26. RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes: (continued)*

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

(vi) During the six-month period ended 30 June 2006, 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 company controlled by Mr. Wong, totalling RMB480,000.

(vii) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's investment properties from Hong Kong GOME, totalling RMB254,000 (six-month period ended 30 June 2006: RMB108,000) during the period. At 30 June 2007, the balance of rental receivable from Hong Kong GOME was RMB254,000 (31 December 2006: Nil).

(b) Compensation of key management of the Group:

	For the six-month period ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Fee	**590**	386
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**4,301**	5,955
Pension costs	**95**	84
	4,986	6,425

27. POST BALANCE SHEET EVENT

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

28. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

The Interim Condensed Consolidated Financial Report was approved and authorised for issue by the board of directors on 23 August 2007.

Additional Information

DISCLOSURE OF INTERESTS

(A) DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2007, the Directors and the chief executive of the Company and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to be notified to the Company and the Stock Exchange:

Long positions in the Shares and underlying Shares and debentures of the Company

	Number of ordinary shares of HK$0.10 in the capital of the Company ("Shares") held						
Name of Directors	Personal interests	Interest of spouse	Corporate interests	Trustee	Number of underlying Shares held under equity derivatives	Total	Approximate % of shareholding
Wong Kwong Yu	900,087	1,480,000 *(note 2)*	1,563,766,947 *(note 1)*	–	–	1,566,147,034	48.06%
Du Juan	–	1,564,667,034 *(note 1)*	1,480,000 *(note 2)*	–	–	1,566,147,034	48.06%
Chen Xiao	–	–	198,544,868 *(note 3)*	149,901,724 *(note 4)*	28,483,398 *(note 5)*	376,929,990	11.57%

Notes:

(1) These shares are held as to 1,377,729,553 Shares by Shinning Crown Holdings Inc. and as to 186,037,394 Shares by Shine Group Limited. Both companies are 100% beneficially owned by Mr. Wong Kwong Yu, the spouse of Ms. Du Juan.

(2) These shares are held as to 280,000 Shares by Smart Captain Holdings Limited and as to 1,200,000 Shares by Wan Sheng Yuan Asset Management Company Limited. Both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong Kwong Yu.

(3) These shares are held by Retail Management Company Limited which is 72.59% beneficially owned by Mr. Chen Xiao.

(4) These shares are held by Mr. Chen Xiao as a trustee of The Retail Management Trust, which is controlled by Mr. Chen Xiao.

(5) These interests are held as to 15,252,398 underlying Shares by Mr. Chen Xiao through his interest in other derivatives not listed or traded on the Stock Exchange and as to 13,231,000 underlying Shares through his interest in cash settled options not listed or traded on the Stock Exchange.

Additional Information

Short Positions in the Shares and underlying Shares and debentures of the Company

Name of Directors	Personal interests	Number of Shares held Interest of spouse	Corporate interests	Trustee	Number of underlying Shares held under equity derivatives	Total	Approximate % of shareholding
Chen Xiao	–	–	–	–	40,504,797 *(note)*	40,504,797	2.49%

Note:

These interests comprising 40,504,797 underlying Shares are held by Mr. Chen Xiao through his interest in other derivatives not listed on traded on the Stock Exchange.

Save as disclosed above, as at 30 June 2007, none of the Company's directors, chief executives or their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(B) PARTICULARS OF THE DIRECTORS' SERVICE CONTRACTS

As at 30 June 2007, none of the Directors had entered or was proposing to enter into a service contract with the Company or any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(C) DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2007, the interests of the Directors in businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, whether directly or indirectly, with the businesses of the Group were as follows:

Name of Directors	Name of competing entity	Description of business of competing entity	Nature of interest of the Director
Mr. Wong Kwong Yu	Parent Group	Retail of electrical appliances and consumer electronics products	Beneficial owner
Ms. Du Juan	Parent Group	Retail of electrical appliances and consumer electronics products	Family interest *(note)*

Additional Information

Note:

Ms. Du Juan, spouse of Mr. Wong Kwong Yu, is deemed to be interested in the business of the Parent Group by virtue of her spouse's interest.

Mr. Wong Kwong Yu and the Company entered into the Non-competition Undertaking on 29 July 2004, pursuant to which Mr. Wong Kwong Yu undertook to the Company that he would not and would procure that the Parent Group would not, among other things, engage in retail sales of electrical appliances and/or consumer electronic products in places in the PRC where the Company had established any retail outlet for the sale of electrical appliances and consumer electronics products under the "GOME Electrical Appliances" trademark, provided that Mr. Wong Kwong Yu remains as the controlling shareholder of the Company. The Company undertook to Mr. Wong Kwong Yu not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in the PRC in which any member of the Parent Group had established, or was as at 3 June 2004 in the course of establishing, any retail outlet for the sale of electrical appliances or consumer electronic products under the "GOME Electrical Appliances" trademark.

(D) DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

During the 6 months period ended 30 June 2007 none of the Company, its subsidiaries or its holding company was a party to any arrangements which enable the directors of the Company to acquire shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or the chief executive of the Company, as at 30 June 2007, other than the interests and short positions of the Directors or the chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

(A) SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Shareholder	Nature	Number of ordinary shares held	Approximate % of Shareholding
Morgan Stanley *(note 1)*	Long position	178,545,934	5.48%
	Short position	34,349,687	1.05%
JPMorgan Chase & Co. *(note 2)*	Long position	249,719,600	7.66%
	Lending pool	188,735,600	5.79%

Additional Information

Notes:

1. Morgan Stanley was interested in these Shares through its interests in controlled corporations. Of these shares, long position in 134,791,371 Shares were held by Morgan Stanley Investment Management Company, long position in 500,000 Shares and short position in 500,000 Share were held by MSDW Equity Financing Service (Luxembourg) S.a.r.l., long position in 25,080,528 Shares and short position in 23,316,433 Shares were held by Morgan Stanley & Co., International plc., long position in 32,633 Shares and short position in 53,000 Shares were held by Morgan Stanley Hong Kong Securities Limited, long position in 7,346,000 Shares were held by Morgan Stanley Asset & Investment Trust Management Co. Limited, long position in 8,336,766 Shares and short position in 8,336,766 Shares were held by MSDW Equity Finance Services I (Cayman) Limited, long position in 14 Shares were held by Morgan Stanley Swiss Holdings GmbH, long position in 619,914 Shares and short position in 405,000 Shares were held by Morgan Stanley Capital Services Inc., long position in 1,838,708 Shares and short position in 1,738,488 Shares were held by Morgan Stanley & Co. Inc., all of which are either controlled or indirectly controlled corporations of Morgan Stanley.

2. JPMorgan Chase & Co. was interested in 4,987,000 Shares, 55,997,000 Shares and 188,735,600 Shares in its capacity as beneficial owner, investment manager and custodian corporation/approved lending agent, respectively. JPMorgan Chase Co. was interested in such shares through its interests in controlled corporations. Of these shares, 191,402,600 Shares were held by JPMorgan Chase Bank, N.A., 6,600,000 Shares were held by J. P. Morgan Investment Management Inc., 43,188,000 Shares were held by JPMorgan Asset Management (UK) Limited, 1,172,000 shares were held by JPMorgan Asset Management (Canada) Inc., 1,187,000 Shares were held by JPMorgan Whitefriars Inc., 1,351,000 Shares were held by JPMorgan Asset Management (Japan) Inc., 1,019,000 Shares were held by JF Asset Management Limited and 3,800,000 Shares were held by J.P. Morgan Securities Limited, all of which are either controlled or indirectly controlled corporations of JPMorgan Chase & Co..

(B) INTERESTS AND SHORT POSITIONS OF OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2007, there was no other person (other than the Directors and the chief executive of the Company), who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Additional Information

OTHER INFORMATION

INTERIM DIVIDENDS

At a meeting held on 23 August 2007, the Board of Directors has declared to pay an interim dividend of HK8.1 cents (equivalent to approximately RMB7.8 fen) (six months ended 30 June 2006: HK4.2 cents (equivalent to approximately RMB4.3 fen)) per share of the Company for the six months ended 30 June 2007. The interim dividend will be paid on 21 September 2007 to those shareholders whose names appear on the Register of Members of the Company on 14 September 2007.

CLOSURE OF REGISTER OF MEMBERS

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

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

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

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

Corporate Information

DIRECTORS

Executive Directors:

WONG Kwong Yu *(Chairman)*
DU Juan
CHEN Xiao
NG Kin Wah

Non-executive Director:

SUN Qiang Chang

Independent Non-executive Directors:

SZE Tsai Ping, Michael
CHAN Yuk Sang
Mark Christopher GREAVES
LIU Peng Hui
YU Tung Ho
Thomas Joseph MANNING

COMPANY SECRETARY

WOO Ka Biu, Jackson

AUTHORIZED REPRESENTATIVES

DU Juan
NG Kin Wah

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong & Shanghai Banking Corporation Limited
China Merchants Bank

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE

Unit 6101, 61st Floor
The Center
99 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Bermuda) Limited
14 Bermudiana Road
Hamilton
Bermuda

SHARE REGISTRARS IN HONG KONG

Abacus Share Registrars Limited
Level 25, Three Pacific Place
1 Queen's Road East
Hong Kong