



GOME Electrical Appliances Holding Limited

國美電器控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

**UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

FINANCIAL HIGHLIGHTS			
	1H 2008	1H 2007	Percentage
	<i>RMBm</i>	<i>RMBm</i>	change
			(%)
Revenue	24,874	21,157	17.6%
Gross Profit	2,375	1,942	22.3%
Net Profit attributable to Equity Holders of the Company	1,150	395	191.1%
Earnings Per Share			
– Basic	RMB8.9 fen	RMB3.2 fen	178.1%
– Diluted	RMB8.9 fen	RMB3.2 fen	178.1%
Earnings Per Share, excluding the (loss) gain on the derivative component of convertible bonds and exchange difference	RMB9.6 fen	RMB6.8 fen	41.18%

The board of directors of GOME Electrical Appliances Holding Limited (the “Company”) announces the unaudited interim financial information of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 together with the comparative figures for the corresponding period in 2007 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2008

	Notes	For the six-month period ended 30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Revenue	3(a)	24,873,694	21,157,226
Cost of sales		(22,498,846)	(19,215,392)
Gross profit		2,374,848	1,941,834
Other income and gain	3(b)	1,686,836	1,214,483
Selling and distribution costs		(2,163,691)	(1,687,040)
Administrative expenses		(375,917)	(379,512)
Other expenses		(250,384)	(196,028)
Profit from operating activities		1,271,692	893,737
Finance costs	6	(108,851)	(71,670)
Finance income	6	268,952	149,328
Loss on the derivative component of convertible bonds	11	(11,400)	(410,640)
Profit before tax	5	1,420,393	560,755
Tax	7	(233,364)	(151,412)
Profit for the period		<u>1,187,029</u>	<u>409,343</u>
Attributable to:			
Equity holders of the parent		1,149,755	395,391
Minority interests		37,274	13,952
		<u>1,187,029</u>	<u>409,343</u>
Dividends			
Interim	8	<u>344,486</u>	<u>254,193</u>
Earnings per share attributable to ordinary equity holders of the parent	9		
– Basic		<u>RMB8.9 fen</u>	<u>RMB3.2 fen</u>
– Diluted		<u>RMB8.9 fen</u>	<u>RMB3.2 fen</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	<i>Notes</i>	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,739,780	3,144,458
Investment properties		331,224	331,680
Goodwill		3,351,012	3,343,012
Other intangible assets		138,761	143,867
Available-for-sale investments		244,620	–
Prepayments for acquisition of properties		136,679	138,300
Lease prepayments		380,526	342,744
Deferred tax assets		47,415	55,873
		<hr/> 8,370,017	<hr/> 7,499,934
Current assets			
Hong Kong listed investments, at fair value		839	1,058
Investment deposits		30,000	30,000
Designated loan		3,000,000	1,500,000
Inventories		5,416,270	5,383,039
Trade and bills receivables	<i>10</i>	130,514	97,719
Prepayments, deposits and other receivables		1,690,312	2,211,998
Due from related parties		76,068	79,024
Other financial assets		–	150,000
Pledged deposits		7,001,485	6,614,725
Cash and cash equivalents		3,397,466	6,269,996
		<hr/> 20,742,954	<hr/> 22,337,559
TOTAL ASSETS		<hr/> 29,112,971	<hr/> 29,837,493

	<i>Notes</i>	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		331,791	343,764
Reserves		7,981,601	9,630,586
Proposed dividend	8	344,486	328,629
		<u>8,657,878</u>	<u>10,302,979</u>
Minority interests		126,942	89,689
		<u>8,784,820</u>	<u>10,392,668</u>
Non-current liabilities			
Deferred tax liabilities		80,431	80,431
Convertible bonds	11	3,294,893	3,184,303
		<u>3,375,324</u>	<u>3,264,734</u>
Current liabilities			
Interest-bearing bank loans		200,000	300,000
Trade and bills payables	12	14,302,117	13,556,545
Customers' deposits, other payables and accruals		1,945,088	1,939,695
Tax payable		505,622	383,851
		<u>16,952,827</u>	<u>16,180,091</u>
Total liabilities		20,328,151	19,444,825
		<u>29,112,971</u>	<u>29,837,493</u>
TOTAL EQUITY AND LIABILITIES		29,112,971	29,837,493

NOTES

1. CORPORATE INFORMATION

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

The principal activity of the Company and its subsidiaries (the “Group”) is the retailing of electrical appliances and consumer electronic products in the People’s Republic of China (the “PRC”).

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

Basis of preparation

The unaudited interim financial information for the six-month period ended 30 June 2008 (the “interim financial information”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The interim financial information 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 2007.

Impact of new and revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2007, 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.

IFRIC 11	–	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	–	Service Concession Arrangements
IFRIC 14	–	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

3. REVENUE AND OTHER INCOME AND GAIN

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

	For the six-month period ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB’000	RMB’000
Sale of electrical appliances and consumer electronic products	<u>24,873,694</u>	<u>21,157,226</u>

(b) Other income and gain comprises the following:

	<i>Notes</i>	For the six-month period ended 30 June	
		2008 (Unaudited) <i>RMB'000</i>	2007 (Unaudited) <i>RMB'000</i>
Income from suppliers		1,228,972	985,375
Management fees:			
– from the Parent Group		135,402	124,003
– from Beijing Dazhong Appliances Retail Co., Ltd		58,146	–
Management fees for air-conditioner installation		53,060	44,478
Rental income		91,987	254
Government grants	(i)	16,830	20,417
Other service fee income		40,560	13,093
Others		61,879	26,863
		<u>1,686,836</u>	<u>1,214,483</u>

Notes:

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

4. SEGMENT INFORMATION

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

5. PROFIT BEFORE TAX

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

	<i>Notes</i>	For the six-month period ended 30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Cost of inventories sold		22,498,846	19,215,392
Depreciation		154,155	132,134
Amortisation of lease prepayments		3,507	4,584
Amortisation of intangible assets		5,106	4,521
(Gain)/loss on disposal of items of property, plant and equipment		(671)	4,577
Minimum lease payments under operating leases in respect of land and buildings		996,891	757,935
Gross rental income		(91,987)	(254)
Loss/(gain) on the derivative component of convertible bonds:			
– 2011 Convertible Bonds		–	406,940
– 2014 Convertible Bonds	<i>11</i>	11,400	3,700
		11,400	410,640
Net exchange loss		73,024	35,477
Impairment of trade receivables and other receivables		2,379	36,785
Auditors' remuneration		3,500	2,309
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		550,324	428,780
Pension scheme contributions		102,019	63,069
Social welfare and other costs		10,844	59,894
		663,187	551,743

6. FINANCE (COSTS)/ INCOME

		For the six-month period ended 30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		(9,661)	(15,355)
Interest expenses on convertible bonds	11	(99,190)	(56,315)
		<u>(108,851)</u>	<u>(71,670)</u>
Finance income:			
Bank interest income		173,503	149,328
Other interest income		95,449	–
		<u>268,952</u>	<u>149,328</u>

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 25% (six-month period ended 30 June 2007: 33%) on their respective taxable income. During the current period, 19 entities (six-month period ended 30 June 2007: 19 entities) of the Group 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 and 2008 as the Group had no assessable profits arising in Hong Kong for the periods.

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Current income tax – PRC	224,906	181,867
Deferred income tax	8,458	(30,455)
	<u>233,364</u>	<u>151,412</u>

8. DIVIDENDS

	For the six-month period ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Declared and paid during the period		
Equity dividends on ordinary shares:		
Final dividend per share for 2007: HK10.6 cents (equivalent to RMB9.9 fen)		
(2006: HK3.6 cents (equivalent to RMB3.6 fen))	<u>316,604</u>	<u>110,118</u>
Proposed (not recognised as a liability as at 30 June)		
Interim dividend per share for 2008: HK3.0 cents (equivalent to RMB2.7 fen)		
(2007: HK8.1 cents (equivalent to RMB7.8 fen))	<u>344,486</u>	<u>254,193</u>

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

Basic earnings per share 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, as adjusted to reflect the subdivision of shares during the period.

The diluted earnings per share 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 as used in the basic earning per share calculation plus the weighted average number of ordinary shares that are assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	For the six-month period ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	<u>1,149,755</u>	<u>395,391</u>

	<i>Notes</i>	Number of shares for the six-month period ended 30 June	
		2008 (Unaudited) '000	2007 (Unaudited) '000
Weighted average number of ordinary shares for basic earnings per share	(i)	12,851,668	12,413,944
Effect of dilution:			
Warrants		48,946	22,874
Weighted average number of ordinary shares adjusted for the effect of dilution		<u>12,900,614</u>	<u>12,436,818</u>

Notes:

- (i) The comparative information of the earnings per share and weighted average number of ordinary shares for the six-month period ended 30 June 2007 have been adjusted for the subdivision of the Company's shares on the basis of every one existing share of HK\$0.1 each into four new shares of HK\$0.025 each on 22 May 2008.
- (ii) The convertible bonds are anti-dilutive for the six-month period ended 30 June 2007 and 2008 and are ignored in the calculation of diluted earnings per share for the periods.

10. TRADE AND BILLS RECEIVABLES

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 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Outstanding balances, aged:		
Within 3 months	126,709	94,015
3 to 6 months	151	2,106
6 months to 1 year	2,428	–
Over 1 year	1,226	1,598
	<u>130,514</u>	<u>97,719</u>

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

11. CONVERTIBLE BONDS

	30 June 2008 (Unaudited) <i>RMB'000</i>	31 December 2007 (Audited) <i>RMB'000</i>
Liability components	3,474,993	3,375,803
Derivative components	(180,100)	(191,500)
	<u>3,294,893</u>	<u>3,184,303</u>

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

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

- (a) convertible at the option of the bondholders into fully paid ordinary shares at anytime from 18 May 2008 to 11 May 2014 at a conversion price of HK\$19.95 (at a fixed exchange rate of RMB0.9823 to HK\$1.00) per share;
- (b) redeemable at the option of the bondholders on 18 May 2010, being the third anniversary of the issue date, at the US dollar equivalent of their RMB 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 settlement of the convertible bonds will be in US dollars using the spot rate prevailing at the date of transaction.

In accordance with the terms and conditions of the 2014 Convertible Bonds, the conversion price has been adjusted from HK\$19.95 per share to HK\$4.96 per Subdivided Share with effect from 23 May 2008 as a result of the declaration of the 2007 interim and final dividends by the Company and the share subdivision.

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

	Liability component of convertible bonds <i>RMB'000</i>	Derivative component of convertible bonds <i>RMB'000</i>	Equity component of convertible bonds <i>RMB'000</i>	Total <i>RMB'000</i>
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	119,833	–	–	119,833
Fair value adjustment	–	(47,900)	–	(47,900)
At 31 December 2007 (audited)	<u>3,375,803</u>	<u>(191,500)</u>	<u>1,415,770</u>	<u>4,600,073</u>
Interest expenses	99,190	–	–	99,190
Fair value adjustment	–	11,400	–	11,400
At 30 June 2008 (unaudited)	<u><u>3,474,993</u></u>	<u><u>(180,100)</u></u>	<u><u>1,415,770</u></u>	<u><u>4,710,663</u></u>

The fair value of the derivative component are determined based on the valuations performed by Vigers Appraisal & Consulting Limited (“Vigers”) using the applicable option pricing model.

12. TRADE AND BILLS PAYABLES

	30 June 2008 (Unaudited) <i>RMB'000</i>	31 December 2007 (Audited) <i>RMB'000</i>
Trade and bills payables	<u><u>14,302,117</u></u>	<u><u>13,556,545</u></u>
Outstanding balances, aged:		
Within 3 months	<u>9,442,560</u>	9,299,648
3 to 6 months	<u>4,498,730</u>	3,841,131
Over 6 months	<u>360,827</u>	415,766
	<u><u>14,302,117</u></u>	<u><u>13,556,545</u></u>

The Group’s bills payables are secured by:

- (i) the pledge of certain of the Group’s buildings;
- (ii) the pledge of certain of the Group’s investment properties;
- (iii) the pledge of certain of the Group’s inventories;
- (iv) the pledge of the Group’s time deposits;
- (v) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group’s time deposits; and
- (vi) the guarantees provided by the Parent Group, Beijing Xinhengji Property Co., Ltd. and Mr. Wong Kwong Yu (“Mr. Wong”), the chairman of the Group.

13. POST BALANCE SHEET EVENT

The Group did not have any significant events taking place subsequent to 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

1. GROUP REVIEW

During the first half of 2008, the Group adhered to the development strategies that revolved around the interests of customers and placed importance on the operation capacity of individual stores, the sales performance of the second-tier markets and the growth of 3C products, as it continued to implement various measures, including sincere and long-term guarantee, the membership system and the extended warranty service. As a result, the Group has further improved its chain store network and maintained its absolute regional advantages, achieving good results for the period under review.

For the first half of 2008, the Group recorded revenue totaling RMB24,874 million, up 17.6% from the corresponding period in 2007. Net profit attributable to equity holders was RMB1,150 million, a 191.1% increase from the same period last year; or RMB1,234 million when excluding the non-operating loss arising from fair value adjustment on the derivative component of convertible bonds, exchange difference, representing a year-on-year increase of 46.8%. During the review period, the Group entered 16 cities and established 102 new stores. As at 30 June 2008, the Group's retail network covered 198 cities across the country and had a total of 828 stores. The total operating area amounted to 2.96 million square meters, a 12.2% increase year-on-year.

During the second quarter of the year, one-off incidents such as the earthquake in Sichuan in May and flooding in southern China have slowed down revenue growth. They also affected to a certain extent the overall growth in the reporting period, as well as the efficiency indicators related to sales.

On 1 March 2008, the Group acquired 10.69% of the total share capital of Sanlian Commercial Co., Ltd., or 27 million shares in total, at a price of RMB19.9 per share. The total cost of the acquisition was RMB537.3 million. Following the move, the Group has become the largest shareholder of Sanlian Commercial Co., Ltd..

On 26 February 2008, the Group replaced Dazhong's information system with success, in a move that marked the initial completion of its integration with Dazhong. Effects of the acquisition will emerge gradually.

As at 30 June 2008, the Group purchased through The Stock Exchange of Hong Kong Limited (the Exchange) 129,800,000 shares of the Company at a price of HK\$14.04 to HK\$17.86 per share. The purchase of the shares, which had a face value of HK\$0.1, amounted to approximately HK\$2.237 billion.

2. BUSINESS REVIEW

2.1 During the reporting period, the Group continued to develop its chain network and further improved its network coverage across the nation. As at 30 June 2008, the network coverage of the Group was as follows:

	Group Total	GOME	China Paradise	Cellstar
Flagship stores	73	53	20	–
Standard stores (including supermarkets)	710	556	154	–
Specialized stores	45	14	10	21
Total	<u>828</u>	<u>623</u>	<u>184</u>	<u>21</u>
<i>Among them</i>				
First-tier cities	523	366	144	13
Second-tier cities	305	257	40	8
Net increase in store number	102	97	7	-2
Number of shop closed	37	22	12	3
No. of newly entered cities	198	163	55	7
Among them				
First-tier cities	27	21	10	1
Second-tier cities	171	142	45	6
No. of newly entered cities	<u>16</u>	<u>14</u>	<u>2</u>	<u>0</u>

As at the end of 30 June 2008, the parent company had a total of 351 stores that were not within the structure of the Group (excluding stores in Hong Kong and Macau).

As at the end of the reporting period, the Group's individual stores had an average size of 3,600 square meters, and the Group's total operating area amounted to 2.96 million square meters, up 12.21% year-on-year. During the reporting period, the Group had 31 self-owned store properties out of the total 828 stores, which are all located in the central business districts of respective cities.

A list of the Group's stores (as at 30 June 2008):

Region	Flagship stores	Standard stores (including supermarkets)	Specialized stores	Total
Beijing	8	52	1	61
Shanghai	11	46	6	63
Tianjin	6	34	1	41
Chengdu	4	54	–	58
Chongqing	3	27	–	30
Xián	2	20	21	43
Shenyang	3	20	–	23
Qingdao	2	23	1	26
Jinan	2	16	–	18
Shenzhen	3	64	1	68
Guangzhou	3	91	5	99
Wuhan	2	26	1	29
Kunming	3	15	2	20
Fuzhou	3	43	2	48
Xiamen	1	32	1	34
Hangzhou	2	15	3	20
Henan	1	27	–	28
Ningbo	1	3	–	4
Nanjing	1	22	–	23
Wuxi	2	5	–	7
Changzhou	1	10	–	11
Suzhou	2	12	–	14
Hefei	1	13	–	14
Xuzhou	1	11	–	12
Tangshan	–	15	–	15
Lanzhou	2	11	–	13
Wenzhou	3	3	–	6
Total	<u>73</u>	<u>710</u>	<u>45</u>	<u>828</u>

The management believes the coverage of the Group's retail network has far overtaken that of its rivals. It will further optimize its network in first-tier cities and improve its network in second-tier cities.

2.2 Store Leases

At the end of the reporting period, the Group had a total of 797 leased stores operated by the Group and the average remaining tenure of the leases was 6.4 years. During the period, the Group's rent constituted 3.92% of the total revenue, compared with 3.5% and 3.7% for the first half of 2007 and the whole of 2007 respectively. The rent-to-revenue ratio saw a slight increase, mainly due to the aforementioned one-off incidents. Notwithstanding the slowdown in revenue in the second quarter of the year, the Group was obliged to pay the rent as set out in contracts.

In a bid to mitigate the pressure from the rise in rental expenses, the Group has optimized the operation area of retail outlets without affecting the operational needs. It has also boosted efforts in leasing and sub-leasing stores. During the reporting period, income derived from sub-leasing totaled RMB91.99 million, compared with RMB0.254 million for the same period last year.

The management of the Group believes that although the property price would continue to go up, the growth would eventually slow down. Also, the change in rental expense as set out in contracts and the period of leases remained under effective control. With the expected growth of new stores and the management's efforts in improving the quality of the operation of stores, the management reckons the ratio of rental expenses on stores to sales revenue will become steady gradually. In addition, the continuous leasing and sub-leasing in the future will also help offset part of the Group's pressure from the surge in rent.

2.3 Enhancement of Operation Quality of Individual Stores

During the reporting period, the Group's same-store sales increased by 0.49% from the same period last year. The earthquake in Sichuan in May and flooding in southern China had a relatively larger impact on individual stores during the second quarter of the year. However, the growth momentum continued in the second-tier markets.

The management believes the improvement of the operation quality of individual stores embodies the Group's core strength. The Group will continue to strengthen store management, boost efforts in the showcase of differential products, seek to offer better customer-end service, open more flagship stores, and attach emphasis to a comprehensive supporting system in second-tier markets, all with a view to ensuring the consistent improvement in the operation quality of individual stores.

2.4 Progress of Important Issues

2.4.1 Expansion in Second Tier Markets

As at the end of the reporting period, the Group has entered 171 second-tier cities, representing 86.36% of the total number of cities the Group entered. In these markets, the Group had established a total of 305 stores, representing 36.84% of the total number of stores. These stores generated 22.67% of the total revenue. This represented a 3.26 percentage point increase from the 19.41% for the same period last year.

The management believes that the improvement and growing sophistication of the second-tier markets is important to the Group's future development. The Group will seek to further improve its network of second-tier markets, establish flagship stores in these markets, and put more efforts in various areas, including human resources, logistics and distribution, after-sale service and promotion, with a view to achieving rapid growth of the second-tier markets.

2.4.2 After-sale Service Arrangements

During the first half of 2008, the Group's Household Appliance Hospital garnered more attention through promotion initiatives. The total number of such hospitals rose from 12 at the end of 2007 to 44 at the end of the reporting period. To provide customers with even better installation and repair services, the Group set up an installation and repair team in the second half of 2007. Following the success of the trial, the Group introduced the initiative to some first-tier cities. As at the end of the reporting period, Guangzhou and Shenzhen had established their own installation and repair teams, which were launched in April and May respectively.

2.4.3 Extended Warranty Service

During the reporting period, the Group invested more efforts in promoting the extended warranty service. Proceeds from extended warranty stood at RMB40.56 million. During the reporting period, the participation rate of extended warranty for all types of products was 3.8%, representing an increase of 1.58 percentage points from 2.22% recorded for the same period in the previous year.

The management believes that although the Group has posted rapid growth in the services related to extended warranty, there is plenty of room for improvement in terms of the participation rate and the average individual price as compared with its overseas peers. In the future, the Group will make more efforts in promoting the service, with a view to encouraging balanced growth of the participation rate and the average cost of participation.

2.4.4 Continuous Improvement of the Membership System

During the reporting period, the Group continued to promote its membership system. As at the end of the reporting period, the total number of members reached more than 13.90 million, with card-holders of the silver category or a higher grade constituting 45.46% of the total. Member purchase accounted for 61% of the total sales and repeat purchase by members reached 34%.

In the latter half of 2008, the Group will enrich the content and functions of the membership system in a bid to facilitate the integration of promotion activities and member bonus point. The management believes this will lead to more effective promotion and raise the loyalty of members.

2.4.5 Further Development of 3C Products

During the reporting period, the Group actively worked with suppliers of renowned domestic and foreign brands so as to enhance the professional standard and sales ability of retail outlets of 3C products. In June 2008, the Group signed an exclusive cooperation agreement with BenQ Computer, under which the Group would be the exclusive retail partner of BenQ in the retail sector of mainland China. Meanwhile, since the telecommunication business has gone independent, it has become more professional and responsive to the market, thus promoting growth of various other businesses.

During the period, 3C products constituted 26.63% of the total revenue, the proportion in the same period of last year was 25.33%. The management believes the persistent increase indicates 3C products will be one of the Group's key growth drivers in the future.

3. FINANCIAL ANALYSIS

3.1 Financial Review

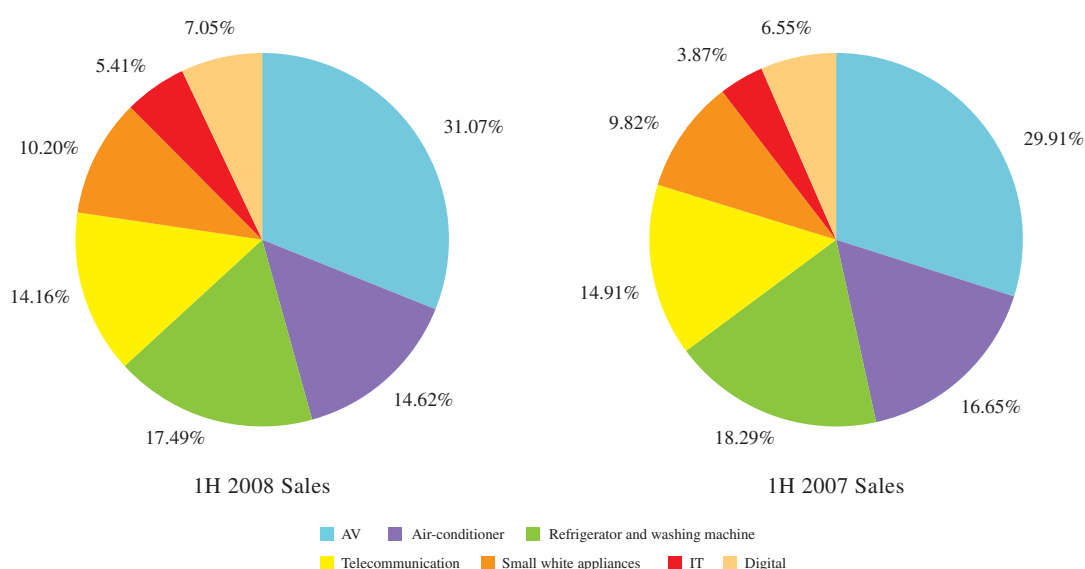
3.1.1 Revenue

During the period under review, the Group's revenue reached RMB24,874 million, up 17.57% from RMB21,157 million recorded in the same period in 2007. During the reporting period, the Group had 489 stores which were qualified for same store comparison. Sales of these stores for the first half of 2008 grew 0.49% from the corresponding period in the previous year.

As at the end of the reporting period, the Group had 828 stores in total, compared with 654 as at the end of the same period last year. During the period, the Group's weighted average sales area was 2.85 million square meters, compared to 2.36 million square meters in the same period in 2007. Annualized sales per square meter in the reporting period was RMB17,437, a 3.13% drop from RMB18,000 for the same period in 2007.

The management believes the Group's efforts in improving its operation quality have started to pay off in view of the fact that despite the considerable impact of the short-term factors on sales, the Group continued to see growth of comparable individual stores and the effectiveness in improving quality of individual stores has been effecting.

Revenue of the Group by product category:



3.1.2 Cost of Sales and Gross Profit

Cost of sales of the Group was approximately RMB22,499 million in the reporting period, compared with RMB19,215 million recorded in the same period in 2007. In the reporting period, gross profit from sales was approximately RMB2,375 million, compared with RMB1,942 million for the same period in the previous year. The gross profit margin went up to approximately 9.55% from 9.18% for the same period in the previous year.

The gross profit margins of various products are as follows:

Category	1H 2008 Gross profit margin	1H 2007 Gross profit margin
AV	9.91%	9.73%
Air-conditioner	9.10%	8.70%
Refrigerator and washing machine	10.21%	9.94%
Telecommunication	7.45%	6.87%
Small white appliances	13.31%	12.78%
IT	5.39%	4.00%
Digital	9.19%	8.64%
Total	9.55%	9.18%

3.1.3 Other Income

The Group's other income mainly came from suppliers. Following the optimization of contracts with suppliers, the revenue the Group generated from suppliers represented 4.94% of the total sales, a notable increase from the 4.66% for the same period in the previous year.

The following chart is a summary of other income:

As a percentage of revenue	First half of 2008	First half of 2007
Income from suppliers	4.94%	4.66%
Management fee from the Parent Group	0.54%	0.58%
Management fees for air-conditioner installation	0.21%	0.21%
Income from government subsidy	0.07%	0.1%
Rental income	0.37%	0%
Management income from Dazhong	0.23%	0%
Others	0.42%	0.19%
Total	<u>6.78%</u>	<u>5.74%</u>

3.1.4 Adjusted Gross Margin

During the reporting period, the adjusted gross margin of the Group's sales reached 16.33%, up 1.41% from the 14.92% recorded in the same period last year.

Adjusted gross margin = (gross profit + other income)/revenue

The management believes that the consistent rise in the adjusted gross margin indicates the Group's efforts in integrating resources, boosting the economies of scale, refining management and enhancing operation efficiency have been effective.

3.1.5 Operating Expenses

The Group's operating expenses principally include selling and distribution costs, administrative expenses and other expenses. The following table sets out a breakdown of operating expenses as a percentage to sales for the reporting period and the corresponding period in the previous year:

Items	First half of 2008	First half of 2007
Selling and distribution costs	8.70%	7.97%
Administrative expenses	1.51%	1.79%
Other expenses	1.01%	0.93%
Total	<u>11.22%</u>	<u>10.69%</u>

3.1.5.1 Selling and Distribution Costs

Selling and distribution costs of the Group primarily represent 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 as a percentage to sales revenue:

Items	1H 2008	1H 2007
Rental	3.92%	3.50%
Salaries	1.79%	1.53%
Advertising expenses	0.69%	0.63%
Delivery expenses	0.42%	0.37%
Promotional expenses	0.18%	0.15%
Utility charges	0.71%	0.71%
Other	0.99%	1.08%
Total	<u>8.70%</u>	<u>7.97%</u>

Out of the selling and distribution costs during the reporting period, rental, salaries, advertising expenses, delivery and promotional expenses in aggregate accounted for 7% of the sales revenue, a notable rise from the 6.18% recorded in the corresponding period of last year. The change was mainly due to impact of the short-term factors in the second quarter, which slowed down the sales growth. However, the expenses have either been paid or are pending to be paid according to contracts.

3.1.5.2 Administrative Expenses

With the expansion of the operation scale of the Group that brought about bigger economies of scale, the administrative expenses as a percentage of sales dropped to 1.51% in the reporting period from 1.79% in the same period last year.

3.1.5.3 Other Expenses

The Group's operating expenses, which mainly comprise bank handling charges, exchange loss, additional tax and miscellaneous expenses, were approximately RMB250 million, compared with 196 million for the same period in the previous year.

The expense increased because more customers chose to pay by credit card during the period, which resulted in a surge in bank handling charges to RMB111 million, net exchange loss totaling RMB73 million, and additional tax amounting to RMB43 million.

3.1.6 Finance Income, Net

The net finance income of the Group for the reporting period and the corresponding period in 2007 amounted to RMB160 million and RMB78 million respectively.

3.1.7 Non-operating Loss Arising from Fair Value Adjustment on the Derivative Component of Convertible Bonds

During the period, non-operating loss arising from fair value adjustment on the derivative component of convertible bonds amounted to RMB11 million, compared with a loss of RMB411 million for the same period last year.

The management is of the view that part of the loss was a form of paper loss as opposed to expenses incurred from daily operation. Therefore, no payment is needed.

3.1.8 Profit before Tax

During the reporting period, the Group's profit before tax was RMB1,420 million, compared with RMB561 million for the corresponding period in 2007.

3.1.9 Income Tax

During the reporting period and the same period in 2007, income tax paid by the Group respectively amounted to RMB233 million and RMB151 million.

3.1.10 Profit Attributable to Equity Holdings of the Company

As mentioned above, the Group's net profit attributable to equity holders for the reporting period and the corresponding period in the previous year respectively amounted to RMB1,150 million and RMB395 million. Therefore, the Group's basic earning per share for the reporting period was RMB8.9 fen, compared with RMB3.2 fen for the first six months of 2007 (after dividing the shares).

3.2 Financial Resources

3.2.1 Cash and Cash Equivalents

At the end of the reporting period, the Group's cash and cash equivalents amounted to RMB3,397 million, as compared with approximately RMB6,270 million recorded at the end of 2007. The sharp decrease in cash and cash equivalents was attributable mainly to repurchase of shares during the period and a large outflow of cash to facilitate entrusted loans.

3.2.2 Inventory

As at the end of the reporting period, the Group's inventory amounted to RMB5,416 million, compared with RMB5,383 recorded as at 31 December 2007.

3.2.3 Prepayment, Deposits and Other Receivables

As at the end of the reporting period, prepayment and other receivables of the Group amounted to RMB1,690 million, as compared with approximately RMB2,212 million as at 31 December 2007.

3.2.4 Trade and Bills Payables

At the end of the reporting period, trade and bills payable of the Group reached RMB14,302 million, compared with RMB13,557 million recorded at the end of 2007. Accounts payable and bills payable turnover days were 113 days for the reporting period, slightly shorter than the 124 days for 2007.

3.2.5 Indebtedness and Leverage

As at 30 June 2008, the Group's debt to equity ratio, expressed as a percentage of interest bearing external borrowings over owners' equity, was 40%, slightly lower than 46% at 31 December 2007.

3.2.6 Capital Expenditure

During the reporting period and the corresponding period in 2007, capital expenditure incurred by the Group amounted to RMB777 million and RMB415 million respectively.

3.2.7 Cash Flow

During the reporting period and the same period in 2007, net cash inflow from operating activities amounted to RMB2,263 million and RMB532 million respectively, while net cash outflow from investment activities amounted to RMB2,846 million and RMB482 million.

Cash inflow/(outflow) from financing activities of the Group during the reporting period totaled RMB(2,177) million; cash inflow from financing activities for the same period in 2007 stood at RMB5,818 million. The cash outflow from financing activities during the period was a result of share repurchase.

3.2.8 Pledged of assets

As at 30 June 2008, the Group's pledged time deposits amounted to RMB7,001 million. Pledged properties amounted to RMB1,027.85 million and pledged inventories amounted to RMB700 million.

3.3 Foreign Currencies and Treasury Policy

All the Group's income and a majority of its expenses were denominated in Renminbi. However, as Renminbi has been appreciating against US Dollar, the Group's short-term US Dollar deposit has recorded an exchange loss in the reporting period. Yet the Group has not hedged its foreign exchange exposure but may consider doing so in future. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

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

3.4 Human Resources

The Group had 49,687 employees as at 30 June 2008, compared with more than 38,000 as at 30 June 2007.

4. OUTLOOK AND PROSPECTS

As the leading retailer of household appliances in China, the Group has in the last two years led and promoted the large-scale consolidation of China's household appliance retail sector, thus consolidating the Group's market share and its absolute competitive advantages. Looking ahead, the Group still has to continue pushing itself to achieve growth, cater to market changes, strengthen its advantages in the mainland market, minimize the difference between its competitive advantages and its foreign rivals', and further enhance its market share.

In terms of network expansion, the Group will reinforce management of its flagship stores, and widen the scope of setting up flagship stores so that it covers not only first-tier markets but also second-tier ones. It will also seek improvement of the network of second-tier markets and implement the broad geographical development policy, with a view to maintaining the Group absolute competitive advantages in every region where it has operations.

On the retail front, the Group will continue to boost the operation quality of individual stores. The image of retail outlets will be spruced up by the new VI policy. Product variety will be enhanced and sales of related products improved by promoting changes to the display of retail outlets. In addition, the Group will retain and transfer salespersons around different outlets, and improve the staff evaluation system to boost sales ability of staff and raise customers' satisfaction level.

On the service front, the Group will establish more call centers and make better use of them, raise the overall service standard by surveying customers' satisfaction level, continue improving the details related to the implementation of the sincere and long-term guarantee system, and broaden the scope of service of such a system through various measures, such as quick refund and exchange policy, compensation for price difference, compensation offered through the issuing of advanced refund, and speedy refund for VIP customers. All these measures are set to enhance the brand's reputation and customer loyalty.

INTERIM DIVIDENDS

At a meeting held on 12 August 2008, the Board of Directors has declared to pay an interim dividend of HK3 cents (equivalent to approximately RMB2.7 fen) (six months ended 30 June 2007: HK8.1 cents (equivalent to approximately RMB7.8 fen)) per share of the Company for the six months ended 30 June 2008. The interim dividend will be paid on 11 September 2008 to those shareholders whose names appear on the Register of Members of the Company on 4 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 2 September 2008 to 4 September 2008, 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, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on 1 September 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

As at 30 June 2008, the Group had repurchased 129,800,000 shares of HK\$0.1 each in the Company at prices of HK\$14.04 to HK\$17.86 per share at The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with an accumulating purchasing amount of approximately HK\$2.237 billion.

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 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee, comprising the four independent non-executive directors of the Company, has reviewed and discussed with the management the Company’s unaudited interim condensed consolidated financial report for the six months ended 30 June 2008 which has been reviewed by Ernst & Young, the external auditors, and the internal control and financial reporting matters.

APPRECIATION

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

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

Hong Kong, 12 August 2008

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

* *For identification purpose only*