国美电器

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 493

TRANSFORM TO MOVE FORWARD

2010 Interim Report

Content

Financial Highlights and Business Summary

FINANCIAL HIGHLIGHTS

	First half of 2010 *RMBm*	First half of 2009 *RMBm*
Revenue	**24,873**	20,463
Gross profit	**2,674**	2,008
Consolidated gross profit margin*	**17.04%**	16.48%
Profit from operating activities	**1,249**	671
Profit attributable to owners of the parent	**962**	580
Earnings per share		
– Basic	**RMB6.4 fen**	RMB4.5 fen
– Diluted	**RMB5.8 fen**	RMB4.5 fen

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

BUSINESS SUMMARY

- We continue to push forward the strategy of "network rationalization" and individual store profitability
- We are making significant strides in executing against our new 5-year blueprint to maximise value for all shareholders
- We have set up in-depth cooperation and formed strategic alliances with suppliers and achieved synergies through our close cooperation with them
- We have launched new SAP implementation program, which will strengthen and improve the supply chain structure, thus enhance our operating efficiency
- We have been capitalizing on the national macro-economic stimulus policy by participating in the "exchange old for new subsidiary program"

Management Discussion and Analysis

OVERVIEW

During the reporting period, GOME Electrical Appliances Holding Limited (the "Company") together with its subsidiaries (collectively known as the "Group" or "GOME"), in line with the macro-economic environment, market conditions and consumers' needs, has further implemented the strategy of optimization and transformation, which resulted in great achievement in respect of network coverage, individual stores' operational capability, merchandise management capability, relationships with suppliers, etc. The Group will step onto a new development stage of stable and healthy growth when its capital structure becomes reasonably strong and the operating model and business model have improved gradually.

A series of strategic plans was developed and implemented by the Group in accordance with its transformation strategy. The Group recorded revenue of approximately RMB24,873 million during the reporting period, up 21.55% from the corresponding period in 2009. The revenue recorded in the second quarter of 2010 was RMB13,092 million and it was the highest single quarter revenue recorded by the Group since its listing. Profit attributable to the owners of the parent was approximately RMB962 million, up 65.86% as compared to the corresponding period in 2009. In addition, during the period, the Group closed 25 underperforming stores and opened 39 stores in key priority regions. At the same time, it completed the transformation of 75 existing stores (including stores that were a part of Beijing Dazhong Home Appliances Retail Co., Ltd ("Dazhong Appliances")) into "new-model" stores, with the cumulative number of "new-model" stores reaching 102.

During the reporting period, the Company's management team, together with Bain Capital Glory Limited ("Bain Capital"), have developed a new 5-year blueprint for the Group designed to maximise long term value for all shareholders. The core elements of the 5-year plan includes store network expansion, supply chain management, regional logistics centers and new model stores development; operating efficiency improvement, widen product offerings, adjusting the mode of supplier contracts and production of differentiated products; ongoing customer and supplier relationship improvement; and new business development. The management has kicked off the implementation of the 5-year blueprint during the reporting period.

In accordance with the provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), on 28 June 2010, Mr. Chen Xiao, Chairman of the board of directors (the "Board") of the Company, resigned as President but remain to be the Chairman of the Company and at the same time, Mr. Wang Jun Zhou, an Executive Director and Executive Vice President of the Company, was appointed as President, so that the roles of the Chairman and President of the Company are separately performed by different individuals. The re-designations will raise the corporate governance standard and further strengthen the management efficiency of the Company, which are in the best interests of the Company and its shareholders as a whole.

BUSINESS REVIEW

1. BUSINESS ENVIRONMENT

1.1 Policy Environment

Domestic consumer demand for home appliances has been greatly boosted by the policy jointly published by three ministries (Ministry of Commerce, Ministry of Finance and Ministry of Environment Protection) and entitled "The Promotion Plan of Exchanging Old for New Home Appliances." The implementation period for this policy has been extended to the end of 2011, and its reach has been extended to 19 trial provinces and cities on top of the 9 existing trial provinces and cities, and mainly covered all of the Group's store network. The Group's management believes that the government's subsidy program for home appliances, coupled with the stable increase in per capita and household income in China, can further boost the spending power of the general public, thereby driving the prosperous development of the home appliance industry.

Although the government promulgated various control policies for the real estate sector in 2010, these policies were primarily designed to discourage the speculative investment in property. Properties bought for investment purposes normally are not equipped with home appliances. As such, these policies have had limited impact upon the home appliance industry. We believe that with the strong tangible demand for purchasing residential properties among the general public, the home appliance industry will maintain its steady growth.

1.2 Industry Environment

Over the past few years, the home appliance retailing industry has maintained rapid growth momentum. Home appliance chain retailers can offer consumers value products on the back of bulk purchasing from manufacturers. At the same time, the manufacturers can afford price cut on the basis of technological innovations, which drives home appliances replacement demand as well as penetration rate.

Management believes the key success factors in the home appliance retail industry remains in the optimisation of its supply chain, whereby a healthy and sustainable relationship based on commercial logic and mutual prosperity should prevail among all participants across the supply chain. To this end, the Group revised its contract with suppliers and shares market intelligence. In addition, the Group kicked off new ERP Implementation project which will further strengthen the connectivity with the supplier and improve merchandise management capability.

Management Discussion and Analysis (continued)

1.3 Capital Status

On 18 May 2010, the Company announced the redemption of 0% coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") with an aggregate principal amount of RMB2,625.9 million. After the cancellation of redeemed bonds, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149.4 million remained outstanding. The redemption did not affect the Company's daily operations but it did reasonably adjust the capital and debt structures of the Company. As at the end of the reporting period, the Group's cash and cash equivalents was approximately RMB5,990 million, almost the same as RMB6,029 million as at the end of 2009.

2. ANALYSIS OF OPERATING ADVANTAGE

2.1 Optimization of Store Network

During the reporting period, the Company continued to deepen its store network optimization strategy and adjusted its store network across the nation. The Company closed down underperforming and loss-making stores, and at the same time strengthened its effort in opening new stores, which adhered to the principle of "opening high quality mega stores" set at the beginning of the year. During the reporting period, in line with the rapid urbanization and urban transformation, the Group quickly seized the emerging regions and opened 39 stores in areas with emerging customer demands and minimal competition. The Group considers the second-tier cities as the main regions to expand its store network, releasing further benefits from economies of scale in the second-tier cities.

Development of Network:

	Group total	GOME	China Paradise	Cellstar
Flagship stores	79	63	16	0
Standard stores	637	532	105	0
Specialized stores	24	3	1	20
Total	740	598	122	20
Among them				
First-tier market	480	366	96	18
Second-tier market	260	232	26	2
	740	598	122	20
Net increase/(decrease) in stores number	14	18	(4)	0
Number of new stores	39	36	3	0
Number of stores closed	25	18	7	0
Number of cities accessed	200	168	52	6
Among them: First-tier cities	26	20	9	1
Second-tier cities	174	148	43	5
Number of cities newly accessed	2	2	0	0

At the end of the reporting period, the Group had 740 stores in 200 large-and-medium-sized cities in China, a net increase of 14 stores compared to the end of 2009. There were also 370 stores of the Non-listed GOME Group (excluding stores in Hong Kong and Macau) and 52 stores of Dazhong Appliances under management contracts. The Group managed a total of 1,162 stores across 331 large-and-medium-sized cities nation-wide.

Number of stores	**30 June 2010**	31 December 2009
GOME Group	**740**	726
Non-listed GOME Group	**370**	364
Dazhong Appliances	**52**	51
Total	**1,162**	1,141

Management Discussion and Analysis (continued)

List of Stores:

Regions	Flagship stores	Standard stores	Specialized stores	Total
Beijing	9	46	0	55
Shanghai	10	48	1	59
Tianjin	7	24	0	31
Chengdu	4	44	0	48
Chongqing	5	30	0	35
Xian	2	24	20	46
Shenyang	4	19	0	23
Qingdao	4	23	0	27
Jinan	2	16	0	18
Shenzhen	3	68	0	71
Guangzhou	4	89	2	95
Wuhan	2	21	1	24
Kunming	3	14	0	17
Fuzhou	3	26	0	29
Xiamen	1	29	0	30
Hangzhou	0	8	0	8
Zhengzhou	1	25	0	26
Nanjing	2	26	0	28
Wuxi	2	1	0	3
Changzhou	2	8	0	10
Suzhou	3	10	0	13
Hefei	1	7	0	8
Xuzhou	1	8	0	9
Tangshan	0	8	0	8
Lanzhou	3	8	0	11
Wenzhou	1	7	0	8
Total	79	637	24	740

At the end of the reporting period, the total sales area of the 740 stores reached 2,740,000 square meters, a 2.43% increase compared to 2,675,000 square meters at the end of 2009, and the average sales area per store increased from 3,685 square meters at the end of 2009 to 3,703 square meters at the end of June 2010, in line with the corporate goal of "opening quality mega stores".

2.2 Higher Store Operating Efficiency

To carry forward its strategic development objectives, the Group adopted two primary measures to enhance the operating efficiency of its existing stores. First, it speed up store re-modeling into "Xin Huo Guan" or "new-model stores". As such, the Group's stores are not only centers for purchasing consumer electronic products, but also acquire knowledge and consumption experience, thereby partnering with consumers in their experience with electrical appliances. As of the end of the reporting period, the Group's "Xin Huo Guan" and "new-model stores" amounted to 11 and 91 respectively.

On the other hand, the Group carefully studied leading international electrical appliance retail chains and remodeled the shopping environment of its outlets in terms of product display, location of showcases, and promotional items. In addition, after studying consumer demands, it focused on improving the customer's one-stop shopping experience, increasing product variety, and satisfying the demands of different customer groups. By doing so, the Group shifted gradually away from concession model to merchandise management model. Under the new model, customer traffic and purchase rate have been increased significantly.

2.3 In-Depth Cooperation with Suppliers

During the reporting period, the Group maintained close cooperation with home appliance manufacturers. The transformation strategies introduced by the Group since 2009 were supported by both domestic and foreign manufacturers. Moreover, they expressed their appreciation for the operating and marketing capabilities of the business team led by Chairman Mr. Chen Xiao. Both the Company and the manufacturers continued to refine the terms of procurement contracts to reflect all charges within the contracts. In doing so, the benefits received by both parties could be expressly stipulated and simplified. The Company also formed a special working team to jointly make decisions with suppliers on sales planning, selection of merchandise, promotion of outlets, marketing strategies and inventory management.

Management Discussion and Analysis (continued)

During the reporting period, the Group entered into strategic cooperation with various major domestic suppliers. The aim of such cooperation is to integrate both parties' strengths and resources in sales and technological research and development. Thus, players across the whole supply chain will be able to swiftly react to the evolving consumers demands, under a strategic alliance. Management believes that such cooperation could be extended with more suppliers, shaping the evolving retailing model in the country. We are also certain that this cooperative model will eventually achieve a triple-win situation among manufacturers, retailers and consumers.

During the reporting period, purchases from the Group's five largest brand name suppliers accounted for 32.95% of total procurement, very close to 32.80% for the same period in 2009.

2.4 Launch of SAP ERP Leader Navigator Project

Enterprise Resource Planning (ERP) (ECC6.0 version) software was jointly developed by SAP and HP, leading enterprises in the ERP software market, and is specially designed to accommodate retail industry. Its strong information collecting and analytic functions can help enhance the daily operational decision-making of enterprises. More importantly, the system can meet GOME's present and future strategic needs. The Group has launched its ERP upgrading project "ERP Leader Navigator", aiming to overhaul its business processes in supply chain management, finance and accounting systems, corporate management information system and customer relation management.

Management believes the ERP project is an important support in GOME's completion of its five year strategic development plan, helping GOME shift from a concession model to a merchandise management model. The system will further strengthen GOME's supply chain infrastructure and increase its operational efficiency and quality of customer service.

2.5 Upgraded Quality of Customer Service and After-Sales Service

While optimizing its retail store network, the Group has also improved its delivery network and logistics by such measures as "warehouse integration" and "sharing of logistics resources," which effectively enhanced delivery capability between cities and regions, expanded delivery area coverage, and effectively lowered fixed cost. As a result, overall operational efficiency were improved.

During the reporting period, the Group further enhanced its after-sales service network to provide customers with attentive and quality service. Customer service projects, including a membership system, home appliance clinics, extended warranty service and call centers, as well as an improved after-sales service system greatly enhanced customer satisfaction and brand image, cultivated and strengthened customer loyalty.

The Group strived to improve and enhance after-sales service for existing customers. Also, in order to support the macroeconomic policy of the government, it activated the "exchange old for new database" ahead of its peers, comprehensively upgrading such aspects as speed and mode of service and online booking. Thus the Company offered consumers a more comprehensive, professional and systematic consultation and enquiry service. Consumers could then understand better the government's new policy of "exchanging old for new" and enjoy benefits provided under the policy.

2.6 Differentiated Business Development

During the reporting period, the Group continued to introduce more exclusive products and increase the variety of component products which carry higher gross profits. At the same time, it put greater effort in value-added businesses, including extension of guarantee period and installation service in remote areas, so as to enhance its profitability in all possible respects. The Group continued to build its strength in differentiated products, including customised series, OEM and ODM product lines. The Group also introduced attractive and most update products with the support of respective suppliers, providing fuller assortment, as well as gaining higher margin.

3. REINFORCEMENT OF CORPORATE GOVERNANCE

During the reporting period, the Group kept improving the level of its corporate governance. Now the Board is comprised of a team highly experienced in retail sales and specialized in capital markets operation. The dedicated and united management will contribute to the Group's strong growth and continuous improvement in corporate governance.

At the annual general meeting of the Company held on 11 May 2010, 3 non-executive Directors nominated by Bain Capital were not re-elected as non-executive Directors. The Board believed that, since their appointments to the Board, there have been increased transparency in the decision making process of the Board, enhanced corporate governance and the strategy of the Company had been better pursued. The Board is of the view that with their experiences and global expertise, these 3 Directors nominated by Bain Capital will continue to contribute to the improvement in the Company's management efficiency and financial management. In addition, to perform the obligation of the Company under the investment agreement entered into with Bain Capital, the Board unanimously agreed that the appointment of 3 Directors nominated by Bain Capital as non-executive Directors was in the best interests of the Company and the shareholders as a whole. Hence, the Board unanimously approved their appointments on 11 May 2010, which took effect on the same day.

In compliance with relevant provisions of the Corporate Governance Code of the Listing Rules, the roles of Chairman and President have been separated with effect from 28 June 2010 and are no longer performed by the same individual, which further boosted management efficiency. The Chairman of the Board sets corporate strategy and direction and the President is in charge of the day-to-day operations and business performance of GOME. Corporate governance of the Company was elevated to a higher level after the separation of these duties.

Management Discussion and Analysis (continued)

FINANCIAL REVIEW

REVENUE

During the reporting period, the Group's revenue was approximately RMB24,873 million, representing an increase of 21.55% from RMB20,463 million in the corresponding period of 2009. The Group had 651 comparable stores, recorded a revenue of RMB23,482 million, up by 24.80% as compared to RMB18,816 million in the same period of 2009.

Summary of revenue from each product category:

	First half of 2010	First half of 2009
As a percentage of sales revenue:		
AV	**30.49%**	30.95%
Air-conditioner	**13.44%**	14.66%
Refrigerator and washing machine	**16.91%**	17.33%
Telecommunication	**14.10%**	14.21%
Small white appliances	**10.89%**	10.19%
IT	**6.81%**	5.45%
Digital	**7.36%**	7.21%
Total	**100.00%**	100.00%

COSTS OF SALES AND GROSS PROFIT

During the reporting period, costs of sales of the Group was approximately RMB22,200 million, accounting for 89.25% of sales revenue, representing a slight decline when compared to the 90.19% costs of sales margin in the corresponding period of 2009. The Group's gross profit recorded was approximately RMB2,674 million as compared with approximately RMB2,008 million in the same period of the previous year, representing an increase of approximately 33.17%, while the increment is much greater than the 21.55% increase in sales revenue. This was mainly due to the Group's focus on differentiation in products, which contributed to an increase in gross profit. Gross profit margin showed an increasing trend over the past three consecutive years, reflects the improvement of the Group's economies of scale, product category management and pricing strategy.

Summary of the gross profit margin of each product category:

	First half of 2010	First half of 2009
AV	**11.54%**	10.32%
Air-conditioner	**10.67%**	9.27%
Refrigerator and washing machine	**11.24%**	10.39%
Telecommunication	**8.86%**	7.61%
Small white appliances	**13.56%**	13.42%
IT	**6.45%**	5.99%
Digital	**9.92%**	9.47%
Total	**10.75%**	9.81%

OTHER INCOME AND GAIN

During the reporting period, the Group recorded other income and gain of approximately RMB1,564 million, representing an increase of 14.66% from RMB1,364 million in the corresponding period of 2009.

Management Discussion and Analysis (continued)

Summary of other income and gain:

	First half of 2010	First half of 2009
As a percentage of sales revenue:		
Income from suppliers	**4.43%**	5.26%
Management fees from the Non-listed GOME Group	**0.56%**	0.52%
Management fees for air-conditioner installation	**0.24%**	0.20%
Government grants	**0.19%**	0.04%
Rental income	**0.36%**	0.38%
Management fees from Dazhong Appliances	**0.18%**	–
Others	**0.33%**	0.27%
Total	**6.29%**	6.67%

CONSOLIDATED GROSS PROFIT MARGIN

During the reporting period, the Group's consolidated gross profit margin reached 17.04%, representing an increase of 0.56 percentage point as compared to 16.48 % in the corresponding period last year. (Consolidated gross profit margin = (gross profit + other income and gain)/revenue). As mentioned in the previous section, gross profit margin and other income increased, contributing to the Group's year-on-year increase in its consolidated gross profit margin.

The increase of the Group's consolidated gross profit margin reflected the advantage of product differentiation, economies of scale and increased operating efficiency.

OPERATING EXPENSES

During the reporting period, the Group's total operating expenses, mainly comprised of selling and distribution costs, administrative expenses and other expenses, were RMB2,989 million, representing 12.02% of total sales revenue. Operating expenses significantly decreased by 1.18 percentage points over the 13.20% recorded in the corresponding period of 2009.

Summary of operating expenses:

	First half of 2010	First half of 2009
As a percentage of sales revenue:		
Selling and distribution costs	**9.45%**	10.58%
Administrative expenses	**1.84%**	1.74%
Other expenses	**0.73%**	0.88%
Total	**12.02%**	13.20%

SELLING AND DISTRIBUTION COSTS

During the reporting period, the Group's total selling and distribution costs amounted to approximately RMB2,351 million and mainly included store rental, salaries, utility charges, advertising expenses, delivery expenses etc., the above five costs aggregately accounting for approximately 86.56% of total selling and distribution costs. The selling and distribution costs accounted for approximately 9.45% of the total sales revenue.

Summary of selling and distribution expenses:

	First half of 2010	First half of 2009
As a percentage of sales revenue:		
Rental	**3.87%**	5.21%
Salaries	**2.12%**	2.56%
Utility charges	**0.71%**	0.80%
Advertising expenses	**0.98%**	0.42%
Delivery expenses	**0.50%**	0.40%
Others	**1.27%**	1.19%
Total	**9.45%**	10.58%

Management Discussion and Analysis (continued)

ADMINISTRATIVE EXPENSES

During the reporting period, the Group's administrative expenses accounted for 1.84% of sales revenue, as compared to 1.74% in the corresponding period of 2009. However, when excluding the amortisation cost of RMB57.61 million in the first half of 2010 related to employee share options granted in year 2009, the administrative expenses would be 1.61% of the sales revenue.

OTHER EXPENSES

Other expenses of the Group mainly comprised business tax, bank charges, exchange loss and donation expenses, etc. Other expenses were approximately RMB181 million for the reporting period, accounting for 0.73% of sales revenue, representing a slight decrease from 0.88% in the corresponding period of 2009.

FINANCIAL EXPENSES, NET

During the reporting period, the Group's net finance expenses was RMB104 million, increased when compared with net finance income of RMB56 million in the corresponding period of 2009. This was mainly due to rise in interest expenses incurred from the convertible bonds issued last year.

PROFIT BEFORE TAX

During the reporting period, the Group's profit before tax was approximately RMB1,256 million, representing an significant increase of 67.47% as compared to the RMB750 million in the corresponding period of last year. The profit before tax margin was approximately 5.05%, representing a growth of 1.38 percentage points as compared to 3.67% in the corresponding period of 2009.

INCOME TAX EXPENSE

During the reporting period, the Group's income tax expense was RMB293 million, up 77.58% as compared to RMB165 million in the corresponding period of 2009, which approximated to the increment of profit before tax during the period. The management considers the tax rate applied to the Group for the reporting period to be reasonable.

PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT AND EARNINGS PER SHARE

During the reporting period, the Group recorded profit attributable to owners of the parent for the period of approximately RMB962 million, representing an significant increase of 65.86% as compared to RMB580 million in the corresponding period of last year. Also, the net profit margin was increased from 2.83% of last year to 3.87% by 1.04 percentage point.

During the reporting period, the basic earnings per share was RMB0.064, representing an increase of 42.22% as compared to RMB0.045 in the corresponding period of last year.

CASH AND CASH EQUIVALENTS

At the end of the reporting period, the Group's cash and cash equivalents were approximately RMB5,990 million, almost the same as RMB6,029 million as at the end of 2009.

INVENTORY

At the end of the reporting period, the Group's inventory amounted to approximately RMB5,794 million, representing a decrease of 11.30% from RMB6,532 million in 2009. The inventory turnover period was approximately 50 days in the reporting period, which basically remained stable as compared with approximately 47 days for the same period in 2009.

PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

At the end of the reporting period, prepayment and other receivables of the Group amounted to approximately RMB1,807 million, representing an increase of 6.17% as compared to RMB1,702 million at the end of 2009, which was mainly due to the advance payment of government subsidies for the "exchange old for new subsidy program".

TRADE AND BILLS PAYABLE

At the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB16,214 million, representing an increase of 2.52% as compared with approximately RMB15,815 million at the end of 2009. Trade and bills payables turnover days were 130 days, which was basically the same as compared to 127 days for the same period in 2009.

CAPITAL EXPENDITURE

During the reporting period, capital expenditure of the Group amounted to RMB154 million, representing a decrease from RMB212 million in the corresponding period 2009.

CASH FLOW

During the reporting period, net cash inflow from operating activities of the Group amounted to approximately RMB3,126 million, which showed a significant increase as compared to the net cash outflow of RMB297 million in the corresponding period of last year.

Net cash outflow from investing activities amounted to approximately RMB147 million, remaining stable as compared to RMB168 million in the same period in 2009.

Net cash outflow from financing activities amounted to approximately RMB3,018 million, as compared to a net cash inflow from financing activities of RMB133 million in the same period in 2009. The increase in cash outflow from financing activities was mainly attributable to the redemption of the Old 2014 Convertible Bonds.

Management Discussion and Analysis (continued)

CHARGE ON GROUP ASSET

As at the end of June 2010, the Group's bank acceptance credit, bills payable and PRC bank loans amounting to RMB11,846 million were mainly secured by the Group's time deposits amounting to RMB7,415 million, certain inventories with the carrying value of RMB500 million and certain properties and investment properties of the Group with the carrying value of RMB2,368 million.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

As at the end of the reporting period, capital commitment of the Group was about RMB133 million.

FOREIGN CURRENCY 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 dollars, the Group's short term US dollars deposit recorded an exchange loss in the period. The Group is considering various plans to reduce such risk. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

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

FINANCIAL RESOURCES AND GEARING RATIO

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

As at 30 June 2010, the total borrowings of the Group, being interest-bearing bank borrowings and convertible bonds, amounting to RMB3,532 million. Of the total borrowings, 6.17% will be repayable in 2010, 93.83% will be repayable beyond 2010. The Group's financing activities will continue to be supported by its bankers.

As at 30 June 2010, the debt to total equity ratio, which expressed a percentage of total borrowings amounting to RMB3,532 million over total equity amounting to RMB12,114 million, decreased to 29.16% from 48.34% as at 31 December 2009. The decrease was mainly due to the redemption of the Old 2014 Convertible Bonds by the Company during the reporting period and as a result, reduced the total borrowing.

HUMAN RESOURCES

As at the end of reporting period, the Group had 41,633 employees, down 1.73% from 42,368 at the end of period of 2009. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees including directors of the Company (the "Director(s)") is determined with reference to their performance and prevailing salary levels in the market. In accordance with the share option scheme adopted on 15 April 2005, the Company has granted the share options to the core management team of the Group in 2009. These incentive plans efficiently united the interests of the management, the Company and the shareholders, facilitating the Company's steady, healthy and long term development.

OUTLOOK AND PROSPECTS

In line with our 5-year plan formulated and started in this year, the Group will focus on its store network expansion, improving productivity and operating efficiency, improving customer and supplier relationships and developing new businesses.

The Group will aim to maintain a market leading position in its store network. Network expansion will initially focus in five key regions, namely Greater Beijing, Greater Shanghai, Greater Sichuan, Guangdong and Shandong. The Group can leverage its existing scale and infrastructure in these regions to accelerate penetration of tier two markets, while strengthening its presence in tier one markets. In relation to tier two markets, the Group will introduce various strategies such as improving the supply chain management, reviewing the Group's internal organisational structure, adjusting key performance indicators and developing regional logistics centres to improve operations. In addition, the Group will seek to develop national- and regional-level strategic collaborations with suppliers to tier two markets, and will intensify marketing efforts in these markets. More importantly, new store openings, reflecting ever changing customer demands, will have different formats, such as super flagship stores, specialized stores, community stores and standard stores. The Group intends to construct regional and national distribution centres to accommodate the expanded store network.

The Group will continue to implement the transformation strategy to strengthen the Company's business operation. Including (1) remodelling of existing stores to reflect a store layout shift from traditional brand-oriented to both product- and brand-oriented; widen product offerings, particularly more small home appliances and other high margin products; (2) adjusting the mode of contracts and developing product management and pricing capabilities to facilitate a transfer from a traditional rebate model to a true retail model to lower procurement cost and develop own capabilities in pricing those products; (3) promotion of differentiated products, including products which are manufactured for the Group under outsourcing arrangements, and sold under brands licensed from third parties; (4) the Group will seek to improve operating efficiency by focusing on inventory management to reduce both excess stock and stock outs, optimise sales planning to achieve greater profitability per square metre, and enhance margin through diversified value added after sales services.

Management Discussion and Analysis (continued)

The Group will seek to improve vendor and customer relationships. The Company will seek to build a mutually beneficial structure with key suppliers by developing a joint platform for supply chain management. The management expects this to be mutually beneficial for both suppliers and the Company, who will benefit from the margin improvement. To build customer loyalty, the Company will invest and strengthen the Group's brand identity and take a more consumer segment specific approach in providing personalised services. Upgrading the membership programme will also be an important task.

Following continued growth in online retailing, e-commerce will be an investment hotspot and the Group will seek and execute to grow the business in this area. The Group will seek to leverage acquisition opportunities that arise from tier two and tier three market consolidations. The Group will aim to extend further into the value chain and explore potential partnerships with upstream suppliers in order to expand differentiated product offerings and enhance product management expertise.

To implement the Group's development blueprint, the overall management system has been highly upgraded by activating the "ERP Leader Navigator" project. The project aims to continuously strengthen our financial management system, customer service, logistics operation, after-sales service as well as administrative and personnel management. The management believes that ERP project can give great support to the implementation of GOME's 5-year plan.

Report on Review of Interim Financial Information

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To the board of directors of
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(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 63 which comprises the condensed consolidated statement of financial position of GOME Electrical Appliances Holding Limited as at 30 June 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information 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 financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information 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 financial information 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 financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
23 August 2010

Interim Condensed Consolidated Income Statement

For the six-month period ended 30 June 2010

	Notes	For the six-month period ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
REVENUE	4	**24,873,283**	20,463,322
Cost of sales		**(22,199,502)**	(18,455,552)
Gross profit		**2,673,781**	2,007,770
Other income and gain	4	**1,564,031**	1,364,053
Selling and distribution costs		**(2,350,793)**	(2,164,203)
Administrative expenses		**(457,068)**	(355,292)
Other expenses		**(180,558)**	(181,047)
Profit from operating activities		**1,249,393**	671,281
Finance costs	6	**(271,707)**	(108,350)
Finance income	6	**167,871**	164,068
(Loss)/gain on the derivative component of convertible bonds	19(i)	**(92,351)**	23,210
Gain on redemption of convertible bonds		**202,578**	–
PROFIT BEFORE TAX	5	**1,255,784**	750,209
Income tax expense	7	**(293,458)**	(165,273)
PROFIT FOR THE PERIOD		**962,326**	584,936
Attributable to:			
Owners of the parent		**962,326**	580,308
Non-controlling interests		**–**	4,628
		962,326	584,936
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic		**RMB6.4 fen**	RMB4.5 fen
– Diluted		**RMB5.8 fen**	RMB4.5 fen

Interim Condensed Consolidated Statement of Comprehensive Income

For the six-month period ended 30 June 2010

	For the six-month period ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**962,326**	584,936
OTHER COMPREHENSIVE INCOME		
Changes in fair value of available-for-sale assets	**(25,650)**	51,030
Exchange differences on translation of foreign operations	**161**	(2,917)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(25,489)**	48,113
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**936,837**	633,049
Attributable to:		
Owners of the parent	**936,837**	628,421
Non-controlling interests	**–**	4,628
	936,837	633,049

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**3,383,205**	3,391,950
Investment properties		**821,043**	820,671
Goodwill		**4,014,981**	4,014,981
Other intangible assets		**120,678**	125,199
Other investments	10	**127,710**	153,360
Prepayments for acquisition of properties		**21,129**	21,129
Lease prepayments		**321,798**	332,407
Deferred tax assets		**29,399**	30,763
Designated loan	11	**3,600,000**	3,600,000
Total non-current assets		**12,439,943**	12,490,460
CURRENT ASSETS			
Hong Kong listed investments, at fair value		**–**	1,635
Inventories	12	**5,793,860**	6,532,453
Trade and bills receivables	13	**78,736**	54,199
Prepayments, deposits and other receivables	14	**1,806,630**	1,701,884
Due from related parties	15	**89,953**	157,146
Pledged deposits	16	**7,415,005**	8,796,344
Cash and cash equivalents	16	**5,989,675**	6,029,059
Total current assets		**21,173,859**	23,272,720
CURRENT LIABILITIES			
Interest-bearing bank loans	17	**100,000**	350,000
Trade and bills payables	18	**16,213,668**	15,815,261
Customers' deposits, other payables and accruals		**1,185,250**	1,829,514
Convertible bonds	19	**117,940**	2,180,357
Tax payable		**465,878**	507,245
Total current liabilities		**18,082,736**	20,682,377

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2010

	Notes	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
NET CURRENT ASSETS		**3,091,123**	2,590,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,531,066**	15,080,803
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**103,429**	103,429
Convertible bonds	*19*	**3,314,069**	3,174,909
Total non-current liabilities		**3,417,498**	3,278,338
Net assets		**12,113,568**	11,802,465
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*20*	**382,408**	382,408
Reserves		**11,731,160**	11,420,057
		12,113,568	11,802,465
Non-controlling interests		**–**	–
Total equity		**12,113,568**	11,802,465

Chen Xiao	**Ng Kin Wah**
Director	*Director*

Interim Condensed Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2010

		Attributable to equity holders of the parent												
	Notes	Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2010		382,408	7,441,991	657	163,509	70,533	98,009	59,400	936,719	(203,014)	2,852,253	11,802,465	-	11,802.465
Total comprehensive income/(loss) for the period		-	-	-	-	-	-	(25,650)	-	161	962,326	936,837	-	936,837
Redemption of the Old 2014 Convertible Bonds	*19(i)*	-	-	-	(683,330)	-	-	-	-	-	-	(683,330)	-	(683,330)
Equity-settled share option arrangements	*21*	-	-	-	-	57,607	-	-	-	-	-	57,607	-	57,607
Disposal of a subsidiary		-	-	-	-	-	-	-	(11)	-	-	(11)	-	(11)
At 30 June 2010 (unaudited)		382,408	7,441,991*	657*	(519,821)*	128,140*	98,009*	33,750*	936,708*	(202,853)*	3,814,579*	12,113,568	-	12,113,568

* As at 30 June 2010, these reserve accounts comprised the consolidated reserves of RMB11,731,160,000 in the interim condensed consolidated statement of financial position.

	Attributable to equity holders of the parent											
	Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	331,791	6,207,709	657	(216,966)	24,319	14,850	761,077	(182,210)	1,618,607	8,559,834	140,201	8,700,035
Total comprehensive income/(loss) for the period	–	–	–	–	–	51,030	–	(2,917)	580,308	628,421	4,628	633,049
At 30 June 2009 (unaudited)	331,791	6,207,709	657	(216,966)	24,319	65,880	761,077	(185,127)	2,198,915	9,188,255	144,829	9,333,084

Interim Condensed Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2010

	Notes	For the six-month period ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,255,784**	750,209
Adjustments for:			
Finance income	6	**(167,871)**	(164,068)
Finance costs	6	**271,707**	108,350
Loss/(gain) on the derivative component of convertible bonds	5	**92,351**	(23,210)
Gain on redemption of convertible bonds	5	**(202,578)**	–
Impairment of goodwill	5	**–**	2,000
Fair value loss/(gain) on Hong Kong listed investments	5	**29**	(243)
Fair value gain on investment properties	4	**(436)**	–
Loss on disposal of items of property, plant and equipment	5	**1,440**	2,934
Depreciation	5	**156,380**	166,871
Amortisation of intangible assets	5	**4,521**	4,521
Equity-settled share option expenses	21	**57,607**	–
		1,468,934	847,364
Decrease in lease prepayments		**10,609**	8,375
Decrease in inventories		**738,593**	1,370,845
(Increase)/decrease in trade and bills receivables		**(24,537)**	20,448
(Increase)/decrease in prepayments, deposits and other receivables		**(104,670)**	135,541
Decrease/(increase) in amounts due from related parties		**67,193**	(50,552)
Decrease/(increase) in pledged deposits		**1,381,339**	(2,559,814)
Increase in trade and bills payables		**398,407**	127,325
Decrease in customers' deposits, other payables and accruals		**(644,264)**	(60,323)
Cash generated from/(used in) operations		**3,291,604**	(160,791)
Interest received		**167,784**	68,856
PRC income tax paid		**(333,461)**	(204,712)
Net cash flow from/(used in) operating activities		**3,125,927**	(296,647)

Interim Condensed Consolidated Statement of Cash Flows (continued)

For the six-month period ended 30 June 2010

	Note	For the six-month period ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Net cash flows from/(used in) operating activities		**3,125,927**	(296,647)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(154,443)**	(209,669)
Proceeds from disposal of items of property, plant and equipment		**5,368**	12,264
Payment of outstanding considerations for business combinations		**–**	(2,760)
Cash received for investment deposits		**–**	31,891
Proceeds from disposals of Hong Kong listed investments		**1,606**	–
Net cash flows used in investing activities		**(147,469)**	(168,274)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of convertible bonds		**(2,685,508)**	–
New bank loans		**100,000**	460,000
Repayment of bank loans		**(350,000)**	(320,000)
Interest paid		**(82,559)**	(6,980)
Net cash flows (used in)/from financing activities		**(3,018,067)**	133,020
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(39,609)**	(331,901)
Cash and cash equivalents at 1 January		**6,029,059**	3,051,069
Effect of foreign exchange rate charges, net		**225**	(2,914)
CASH AND CASH EQUIVALENTS AT 30 JUNE		**5,989,675**	2,716,254
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	16	**5,989,675**	2,623,964
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	92,290
		5,989,675	2,716,254

Notes to the Interim Financial Information

As at 30 June 2010

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 address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

BASIS OF PREPARATION

The unaudited interim financial information for the six-month period ended 30 June 2010 (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 annual financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2009.

SIGNIFICANT ACCOUNTING POLICIES

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 2009, except for the adoption of the new International Financial Reporting Standards ("**IFRSs**") and International Financial Reporting Interpretations Committee ("**IFRIC**") interpretations as of 1 January 2010 as noted below:

IFRS 3 (Revised) *Business Combinations*

The standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 27 (Revised) *Consolidated and Separate Financial Statements*

The standard requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of future acquisitions, loss of control and transactions with non-controlling interests. The adoption of these revised standards did not have any impact on the financial position or performance of the Group during the six-month period ended 30 June 2010.

Improvements to IFRSs (issued May 2008)

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

The amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity retains a non-controlling interest. The changes are applied prospectively and affect future sale transactions or plans involving loss of control of a subsidiary. These amendments did not have any impact on the financial position or performance of the Group during the six-month period ended 30 June 2010.

Improvements to IFRSs (issued April 2009)

In April 2009 the International Accounting Standards Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 8 *Operating Segment Information*

The standard clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief decision maker does review segment assets and liabilities, the Group has continued to disclose this information in note 3.

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

IFRS 2	*Share-based Payment*
IAS 1	*Presentation of Financial Statements*
IAS 7	*Statement of Cash Flows*
IAS 17	*Leases*
IAS 36	*Impairment of Assets*
IAS 38	*Intangible Assets*
IAS 39	*Financial Instruments: Recognition and Measurement*
IFRIC 9	*Reassessment of Embedded Derivatives*
IFRIC 16	*Hedge of a Net Investment in a Foreign Operation*

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

3. SEGMENT INFORMATION

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

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

Notes to the Interim Financial Information (continued)

As at 30 June 2010

3. SEGMENT INFORMATION (continued)

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss, other investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, convertible bonds, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	For the six-month period ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment revenue		
Sales to external customers	**24,873,283**	20,463,322
Segment results	**1,430,976**	778,180
Reconciliation		
Interest income	**81,110**	72,969
Unallocated income and gains	**822**	3,163
(Loss)/gain on the derivative component of convertible bonds	**(92,351)**	23,210
Gain on redemption of convertible bonds	**202,578**	–
Finance costs	**(271,707)**	(108,350)
Corporate and other unallocated expenses	**(95,644)**	(18,963)
Profit before tax	**1,255,784**	750,209

3. SEGMENT INFORMATION (continued)

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Segment assets	**20,034,690**	20,752,019
Reconciliation		
Corporate and other unallocated assets	**13,579,112**	15,011,161
Total assets	**33,613,802**	35,763,180
Segment liabilities	**17,382,544**	17,644,775
Reconciliation		
Corporate and other unallocated liabilities	**4,117,690**	6,315,940
Total liabilities	**21,500,234**	23,960,715

Notes to the Interim Financial Information (continued)

As at 30 June 2010

4. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gain is as below:

	Notes	For the six-month period ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**24,873,283**	20,463,322
Other income			
Income from suppliers		**1,101,565**	1,076,955
Management fees:			
– from the Non-listed GOME Group	*(i)*	**138,931**	106,333
– from Dazhong Appliances	*(ii)*	**44,968**	–
Management fees for air-conditioner installation		**60,169**	40,976
Rental income		**89,864**	77,506
Government grants	*(iii)*	**47,925**	7,660
Other service fee income		**48,643**	30,195
Others		**31,530**	24,428
		1,563,595	1,364,053
Gain			
Fair value gain on investment properties		**436**	–
		1,564,031	1,364,053

4. REVENUE, OTHER INCOME AND GAIN (continued)

Notes:

(i) The Non-listed GOME Group is defined in note 23(a) to the Interim Financial Information.

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

(iii) Various local government grants 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.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

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 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Cost of inventories sold		**22,199,502**	18,455,552
Depreciation		**156,380**	166,871
Amortisation of intangible assets	*(i)*	**4,521**	4,521
Loss on disposal of items of property, plant and equipment		**1,440**	2,934
Minimum lease payments under operating leases in respect of land and buildings		**982,737**	1,086,403
Gross rental income	*4*	**(89,864)**	(77,506)
Fair value gain on investment properties	*4*	**(436)**	–
Management fees from Dazhong Appliances	*4*	**(44,968)**	–
Interest income from Beijing Zhansheng	*6*	**(86,761)**	(91,099)
Staff costs:			
Wages, salaries and bonuses		**566,119**	534,435
Pension scheme contributions		**112,610**	128,888
Social welfare and other costs		**11,280**	3,025
Equity-settled share option expense	*21*	**57,607**	–
		747,616	666,348
Loss/(gain) on the derivative component of convertible bonds	*19(i)*	**92,351**	(23,210)
Gain on redemption of convertible bonds	*19(i)*	**(202,578)**	–
Fair value loss/(gain) on Hong Kong listed investments		**29**	(243)
Foreign exchange differences, net		**13,784**	(4,128)
Impairment of goodwill		**–**	2,000
Impairment of prepayments, deposits and other receivables		**–**	21,724

Note:

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

6. FINANCE (COSTS)/INCOME

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

	Note	For the six-month period ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		**(7,451)**	(6,980)
Interest expenses on convertible bonds	19	**(264,256)**	(101,370)
		(271,707)	(108,350)
Finance income:			
Bank interest income		**81,110**	72,969
Other interest income		**86,761**	91,099
		167,871	164,068

7. INCOME TAX EXPENSE

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Current income tax – PRC	**292,094**	162,481
Deferred income tax	**1,364**	2,792
	293,458	165,273

Notes to the Interim Financial Information (continued)

As at 30 June 2010

7. INCOME TAX EXPENSE (continued)

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on enacted tax rates.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month period ended 30 June 2009: 25%) on their respective taxable income. During the current period, 30 entities (six-month period ended 30 June 2009: 22 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 periods ended 30 June 2010 and 2009, respectively, as the Group had no assessable profits arising in Hong Kong for each of the periods.

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 15,055,332,000 (six-month period ended 30 June 2009: 12,758,756,000) in issue during the year.

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

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

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

	For the six-month period ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**962,326**	580,308
Interest on the Old 2014 Convertible Bonds	**49,988**	–
Fair value loss on the derivative component of the Old 2014 Convertible Bonds	**92,351**	–
Gain on redemption of the Old 2014 Convertible Bonds	**(202,578)**	–
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of the Old 2014 Convertible Bonds	**902,087**	580,308

Notes to the Interim Financial Information (continued)

As at 30 June 2010

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

	Notes	Number of shares for the six-month period ended 30 June 2010 (Unaudited) '000	2009 (Unaudited) '000
Shares			
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation		**15,055,332**	12,758,756
Effect of dilution – weighted average number of ordinary shares:			
Warrants	*(i)*	**34,272**	–
Share options		**33,605**	–
Convertible bonds	*(ii)*	**491,084**	–
		15,614,293	12,758,756

Notes:

(i) During the six-month period ended 30 June 2009, the average quoted market price of the Company's shares was less than the exercise price of the warrants. Therefore, the warrants had an anti-dilutive effect on the basic earnings per share for the six-month period ended 30 June 2009 and were not included in the calculation of diluted earnings per share.

(ii) The 2016 Convertible Bonds and the New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the six-month period ended 30 June 2010 and were therefore not included in the calculation of diluted earnings per share. Therefore, only the effect of the Old 2014 Convertible Bonds was included in the calculation of diluted earnings per share for the six-month period ended 30 June 2010.

The Old 2014 Convertible Bonds that were redeemed during the six-month period ended 30 June 2010 were included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. As at 30 June 2010, the Old 2014 Convertible bonds with an aggregate principal amount of RMB149,400,000 remained outstanding (note 19(i)).

The Old 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the six-month period ended 30 June 2009 and were therefore not included in the calculation of diluted earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2010, the Group acquired items of property, plant and equipment at a total cost of RMB154 million (six-month period ended 30 June 2009: RMB334 million). Items of property, plant and equipment with a net carrying amount of RMB6.8 million (six-month period ended 30 June 2009: RMB15.2 million) were disposed of during the six-month period ended 30 June 2010.

Certain of the buildings of the Group were pledged as security for bank loans and bills payable (note 18) of the Group as at 30 June 2010. The aggregate carrying amount of the pledged buildings as at 30 June 2010 amounted to RMB1,676,453,000 (31 December 2009: RMB1,610,839,000).

10. OTHER INVESTMENTS

	30 June 2010 (Unaudited) ***RMB'000***	31 December 2009 (Audited) *RMB'000*
PRC listed equity investments, at fair value	**127,710**	153,360

The balance as at 30 June 2010 represented the fair value of the Group's investments in 27,000,000 shares, representing approximately 10.7% of the outstanding issued shares, of Sanlian Commercial Co., Ltd. ("**Sanlian**"). Sanlian is a company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 30 June 2010 and 31 December 2009. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

According to Sanlian's announcement dated 17 May 2010, on 14 May 2010, Sanlian received a "Decision on the Suspension from Trading of the Stocks of Sanlian Shangshe Joint Stock Company" issued by the Shanghai Stock Exchange. Pursuant to this decision, Sanlian's shares were officially suspended from trading since 25 May 2010 as Sanlian had incurred losses for three consecutive years up to 31 December 2009. In the opinion of the directors, the trading of Sanlian's shares will be resumed during 2011 if Sanlian makes a profit for the year ended 31 December 2010.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

10. OTHER INVESTMENTS (continued)

As at 30 June 2010, the fair value of these investments is determined by the directors of the Company, based on various sources of information and assumptions, at RMB4.73 per share. As at 31 December 2009, the fair value of these investments was based on quoted market prices of the listed shares, which was RMB5.68 per share.

During the six-month period ended 30 June 2010, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB829,000 (six-month period ended 30 June 2009: RMB758,000).

11. DESIGNATED LOAN

The designated loan of RMB3,600 million as at 30 June 2010 (31 December 2009: RMB3,600 million) represented the aggregate amount of loans provided to Beijing Zhansheng by the Group, through the Beijing Branch of Industrial Bank Co., Ltd. (the "**Bank**"). The loan has a maturity date on 14 December 2011 and the interest rate is 4.86% per annum.

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

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

12. INVENTORIES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Merchandise for resale	**5,713,972**	6,439,237
Consumables	**79,888**	93,216
	5,793,860	6,532,453

As at 30 June 2010, certain of the Group's inventories amounting to RMB500 million (31 December 2009: RMB500 million) were pledged as security for the Group's bank loans and bills payable (note 18).

13. TRADE AND BILLS RECEIVABLES

All of the Group's sales are on a cash basis except for certain bulk sales of merchandise which are credit sales. The credit terms offered to customers are generally one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Management considers that there is no significant concentration of credit risk.

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

	30 June 2010 (Unaudited) ***RMB'000***	31 December 2009 (Audited) *RMB'000*
Outstanding balances, aged:		
Within 3 months	**78,274**	50,419
3 to 6 months	**29**	3,071
6 months to 1 year	**–**	273
Over 1 year	**433**	436
	78,736	54,199

The balance at 30 June 2010 included the trade receivables from Dazhong Appliances of RMB8,000. During six-month period ended 30 June 2010, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB78.5 million (six-month period ended 30 June 2009: RMB39.7 million).

Notes to the Interim Financial Information (continued)

As at 30 June 2010

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Prepayments	(i)	**408,644**	384,398
Advances to suppliers		**431,490**	457,567
Other deposits and receivables		**859,973**	798,364
Management fees receivable from Dazhong Appliances	(ii)	**106,523**	61,555
		1,806,630	1,701,884

(i) The balance included the current portion of the rental prepayments to Beijing Centergate Technologies (Holding) Co., Ltd. ("**Centergate Technologies**"), a related company as further defined in note 23(a) to the Interim Financial Information, amounting to RMB6,612,000 (note 23(a)(vi)) as at 30 June 2010 (31 December 2009: RMB6,612,000).

(ii) In the opinion of the directors, the management fees receivable from Dazhong Appliances will be settled before the end of 2010.

15. DUE FROM RELATED PARTIES

	Note	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Receivables from the Non-listed GOME Group	(i)	**88,938**	156,912
Others		**1,015**	234
		89,953	157,146

Note:

(i) The balance mainly represented the management fee due from the Non-listed GOME Group (note 23(a)(ii)). The aforesaid balance is interest-free, unsecured and has no fixed terms of repayment.

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Cash and bank balances	**5,989,675**	5,492,859
Time deposits	**7,415,005**	9,332,544
	13,404,680	14,825,403
Less: Pledged time deposits:		
Pledged for bills payable	**(6,423,162)**	(6,189,973)
Pledged for bank acceptance credit	**(991,843)**	(2,606,371)
	(7,415,005)	(8,796,344)
Cash and cash equivalents	**5,989,675**	6,029,059

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB11,599,640,000 (31 December 2009: RMB10,198,403,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank balances of the Group earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group are made for varying periods of between one day and one year, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

17. INTEREST-BEARING BANK LOANS

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
PRC bank loans – secured, within one year	**100,000**	350,000

The Group's bank loans are all denominated in RMB and bear interest at 4.374% (2009: 4.86% to 5.841%) per annum.

The Group's bank loans are secured by guarantees and pledges as set out in note 18 below.

The carrying amounts of the Group's bank loans approximate to their fair values.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

18. TRADE AND BILLS PAYABLES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Trade payables	**4,467,769**	4,159,579
Bills payable	**11,745,899**	11,655,682
	16,213,668	15,815,261

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

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 3 months	**10,713,584**	9,617,687
3 to 6 months	**5,139,476**	5,921,009
Over 6 months	**360,608**	276,565
	16,213,668	15,815,261

The Group's bills payable and PRC bank loans (note 17) above are secured by:

(i) the pledge of the Group's time deposits (note 16);

(ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits (note 16);

(iii) the pledge of certain of the Group's inventories (note 12);

(iv) the pledge of certain of the Group's buildings (note 9);

(v) the pledge of certain of the Group's investment properties with an aggregate fair value of RMB691,837,000 (31 December 2009: RMB625,197,000); and

18. TRADE AND BILLS PAYABLES (continued)

(vi) the corporate guarantees provided by the Non-listed GOME Group and personal guarantees provided by Mr. Wong Kwong Yu ("**Mr. Wong**"), the substantial shareholder of the Company, Mr. Chen Xiao, the chairman of the Company, and Mr. Fang Wei, the acting chief financial officer of the Group, as at 30 June 2010 (note 23(a)(iv)). The personal guarantee will be expired on 7 September 2010.

19. CONVERTIBLE BONDS

	Notes	**30 June 2010 (Unaudited) *RMB'000***	31 December 2009 (Audited) *RMB'000*
Liability components:			
Old 2014 Convertible Bonds	*(i)*	**126,278**	2,281,046
2016 Convertible Bonds	*(ii)*	**1,574,050**	1,502,733
New 2014 Convertible Bonds	*(iii)*	**1,740,019**	1,672,176
		3,440,347	5,455,955
Derivative components:			
Old 2014 Convertible Bonds	*(i)*	**(8,338)**	(100,689)
		3,432,009	5,355,266
Classified as current liabilities		**(117,940)**	(2,180,357)
Non-current liabilities		**3,314,069**	3,174,909

Notes to the Interim Financial Information (continued)

As at 30 June 2010

19. CONVERTIBLE BONDS (continued)

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

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

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

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

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

(c) redeemable at the option of the Company at any time after 18 May 2010 and prior to 18 May 2014 in all or some of the bonds for the time being outstanding at the US dollar equivalent to their early redemption amount as at the date fixed for redemption, providing the prices of the Company's shares for each of 20 consecutive trading days are over 130% of the early redemption price.

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

The conversion price of the Old 2014 Convertible Bonds was HK$4.46 per share as at 31 December 2009 and 30 June 2010. No adjustment was made to the conversion price during the six-month period ended 30 June 2010.

19. CONVERTIBLE BONDS (continued)

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

On 18 May 2010, the Company redeemed part of the Old 2014 Convertible Bonds with an aggregate principal amount of RMB2,625,900,000 pursuant to redemption notices received from the bondholders in accordance with the terms and conditions of the Old 2014 Convertible Bonds. The bonds redeemed were cancelled. The consideration for the redemption was allocated to the liability component, the derivative component and the equity component of the Old 2014 Convertible Bonds at the date of the redemption. The method used in allocating the consideration paid to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the Old 2014 Convertible Bonds were issued. The Company determined the fair value of the liability component at the date of the redemption based on the valuations performed by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), an independent firm of professionally qualified valuers, using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the derivative component was determined based on the valuations performed by Sallmanns using an option pricing model. The amount of redemption gain which related to the liability component amounting to RMB202,578,000 was recognised in profit or loss and the amount of consideration which related to the equity component of RMB683,330,000 was recognised in equity.

As at 30 June 2010, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

19. CONVERTIBLE BONDS (continued)

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

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

	Liability component of convertible bonds *RMB'000*	**Derivative component of convertible bonds** *RMB'000*	**Equity component of convertible bonds** *RMB'000*	**Total** *RMB'000*
At 31 December 2009 and 1 January 2010 (audited)	**2,281,046**	**(100,689)**	**970,813**	**3,151,170**
Interest expenses	**49,988**	**–**	**–**	**49,988**
Fair value adjustment	**–**	**92,351**	**–**	**92,351**
Redemption of bonds	**(2,204,756)**	**–**	**(683,330)**	**(2,888,086)**
At 30 June 2010 (unaudited)	**126,278**	**(8,338)**	**287,483**	**405,423**

	Liability component of convertible bonds *RMB'000*	Derivative component of convertible bonds *RMB'000*	Equity component of convertible bonds *RMB'000*	Total *RMB'000*
At 31 December 2008 and 1 January 2009 (audited)	3,571,833	(2,280)	1,415,770	4,985,323
Interest expenses	101,370	–	–	101,370
Fair value adjustment	–	(23,210)	–	(23,210)
At 30 June 2009 (unaudited)	3,673,203	(25,490)	1,415,770	5,063,483

The fair values of the derivative component are determined based on the valuations performed by Sallmanns using the applicable option pricing model.

19. CONVERTIBLE BONDS (continued)

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

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

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

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

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

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

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

Notes to the Interim Financial Information (continued)

As at 30 June 2010

19. CONVERTIBLE BONDS (continued)

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

The movements of the liability component and equity component of the 2016 Convertible Bonds during the period are as follows:

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

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

On 25 September 2009, the Company issued RMB denominated USD settled 3.0% coupon convertible bonds due 2014 with an aggregate principal amount of RMB2,357.2 million.

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

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

(b) redeemable at the option of the bondholders in all or some only of the bonds on 25 September 2012 at a USD amount equivalent of 103.634% of their RMB principal amount together with interest accrued to the date fixed for redemption; and

19. CONVERTIBLE BONDS (continued)

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

(c) redeemable at the option of the Company at any time after 25 September 2012 in all, but not some only, of the bonds for the time being outstanding at a USD amount equivalent of their early redemption amount as at the date fixed for redemption together with interest accrued to the date fixed for redemption, provided that the closing prices of the Company's shares for 30 consecutive trading days prior to the date upon which notice of such redemption is published are at least 130% of the early redemption amount of a bond divided by the conversion ratio.

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

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

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

Notes to the Interim Financial Information (continued)

As at 30 June 2010

20. ISSUED CAPITAL

	Number of shares '000	HK$'000	Equivalent to RMB'000
Authorised:			
Ordinary shares of HK$0.025 each at 1 January and 30 June 2010	**200,000,000**	**5,000,000**	**5,300,000**
Issued and fully paid:			
Ordinary shares of HK$0.025 each at 1 January and 30 June 2010	**15,055,332**	**376,384**	**382,408**

21. SHARE OPTION SCHEME

The following share options were outstanding under the option scheme during the period:

	Six-month period ended 30 June 2010		Six-month period ended 30 June 2009	
	Weighted average exercise price HK$ per share	**Number of option '000**	Weighted average exercise price HK$ per share	Number of option '000
At 1 January	**1.90**	**374,700**	–	–
Forfeited during the period	**1.90**	**(10,500)**	–	–
At 30 June	**1.90**	**364,200**	–	–

21. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

30 June 2010 Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
91,050	1.90	7 July 2010 to 6 July 2019
91,050	1.90	7 July 2011 to 6 July 2019
91,050	1.90	7 July 2012 to 6 July 2019
91,050	1.90	7 July 2013 to 6 July 2019

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The Group recognised a share option expense of RMB57,607,000 (six-month period ended 30 June 2009: nil) during the six-month period ended 30 June 2010.

At the end of the reporting period, the Company had 364,200,000 share options outstanding under the option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 364,200,000 additional ordinary shares of the Company and additional share capital of HK$9,105,000 (equivalent to approximately RMB7,943,000) and share premium of HK$682,875,000 (equivalent to approximately RMB595,740,000) (before issue expenses).

At the date of approval of the Interim Financial Information, the Company had 364,200,000 share options outstanding under the option scheme, which represented approximately 2.4% of the Company's shares in issue as at that date.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

22. 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 end of the reporting period, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within one year	**1,865,614**	1,788,597
In the second to fifth years, inclusive	**5,851,784**	5,659,127
After five years	**3,022,257**	2,928,621
	10,739,655	10,376,345

As defined under IAS 17, a non-cancellable lease is a lease that is cancellable only (a) upon the occurrence of some remote contingencies; (b) with the permission of the lessor; (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Pursuant to the relevant lease agreements, upon the payment of early termination compensation rental which in general ranges from one to six 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.

22. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(a) OPERATING LEASE COMMITMENTS (continued)

As lessor

The Group has leased its investment properties and entered into commercial property subleases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms of between one to fifteen years. The leases include a clause to enable an 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 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Within one year	**173,057**	166,564
In the second to fifth years, inclusive	**496,391**	506,847
After five years	**286,005**	327,831
	955,453	1,001,242

(b) CAPITAL COMMITMENTS

In addition to the operating lease commitments above, the Group had the following capital commitments at the end of the reporting period.

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Contracted, but not provided for:		
Acquisition of buildings	**118,571**	118,571
Acquisition of intangible assets	**14,286**	–
	132,857	118,571

Notes to the Interim Financial Information (continued)

As at 30 June 2010

23. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in notes 14 and 15 to the Interim Financial Information, the Group had the following significant transactions with the related parties.

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

		For the six-month period ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Sales to the Non-listed GOME Group	*(i)*	**175,099**	234,259
Purchases from the Non-listed GOME Group	*(i)*	**(49,326)**	(86,831)
Provision of management and purchasing services to the Non-listed GOME Group	*(ii), 4*	**138,931**	106,333
Rental expenses to Beijing Xinhengji	*(iii)*	**(2,112)**	(2,112)
Provision of corporate guarantees from the Non-listed GOME Group and personal guarantees from Mr. Wong, Mr. Chen Xiao and Mr. Fang Wei in respect of the Group's bills and loan facilities	*(iv)*	**530,000**	1,380,000
Rental income from a related party	*(v)*	**261**	262
Rental expenses to Centergate Technologies	*(vi)*	**(3,306)**	(3,306)

The Non-listed GOME Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., Gome Electrical Appliance Retail 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 Non-listed GOME Group are owned by Mr. Wong, a substantial shareholder of the Company.

Beijing Xinhengji Property Co., Ltd. ("**Beijing Xinhengji**") is owned by a close member of the family of Mr. Wong.

23. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Centergate Technologies is a listed company in the PRC in which Mr. Wong had significant influence.

Notes:

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

(ii) The Group provides management services to the Non-listed GOME Group in respect of the retailing of electrical appliances and consumer electronic products. In addition, the Group negotiates with various suppliers for both the Group and the Non-listed GOME Group on a centralised basis. The 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 Non-listed GOME Group, pursuant to a management agreement and a purchasing service agreement entered into between the Group and the Non-listed GOME Group.

(iii) The Group entered into a rental agreement with Beijing Xinhengji to lease properties at an annual rental of approximately US$523,000. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices.

(iv) The provision of guarantees is at nil consideration.

(v) The Company's subsidiaries, Hong Kong Punching Centre Limited and China Eagle Management Limited, received operating lease rentals from GOME Home Appliances (Hong Kong) Limited, a company owned by Mr. Wong, totalling RMB261,000 (six-month period ended 30 June 2009: RMB262,000) during the period. In the opinion of the directors, the rental has been determined based on the prevailing market rentals.

(vi) In November 2007, the Group entered into a lease agreement with Centergate Technologies to lease certain commercial properties for the Group's retail operations for a period from 1 December 2007 to 30 November 2020 with a prepaid rental of RMB85,952,000. The balance of the rental prepayments at 30 June 2010 amounted to RMB68,871,000 (31 December 2009: RMB72,177,000), among which RMB62,259,000 (31 December 2009: RMB65,565,000) was classified as long term and RMB6,612,000 (31 December 2009: RMB6,612,000) (note 14) was classified as short term in the Interim Financial Information. In the opinion of the directors, the rental has been determined based on the prevailing market rentals.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

23. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management of the Group:

	For the six-month period ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Fees	**696**	926
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**4,469**	3,090
Pension costs	**98**	87
Equity-settled share option expense	**26,558**	–
	31,821	4,103

24. CONTINGENCIES

(a) At the end of the reporting period, contingent liabilities not provided for in the Interim Financial Information were as follows:

	30 June 2010	31 December 2009
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Guarantees given to banks in connection with bill facilities granted in favour of:		
Dazhong Appliances	**264,045**	205,650

(b) Enforcement action by the Securities and Futures Commission

Court grants injunction to freeze assets of Mr. Wong and his spouse

On 7 August 2009, the Securities and Futures Commission ("**SFC**") of the Hong Kong Special Administrative Region announced that the High Court has granted an interim injunction to freeze assets of up to HK$1,655,167,000 in relation to the former chairman of the Company, Mr. Wong, his spouse Ms. Du Juan and two companies.

24. CONTINGENCIES (continued)

(b) Enforcement action by the Securities and Futures Commission (continued)

Court grants injunction to freeze assets of Mr. Wong and his spouse (continued)

Mr. Wong and Ms. Du Juan are alleged to have organised a share repurchase by the Company in January and February 2008 in order to use the Company's funds to buy shares originally held by Mr. Wong so that Mr. Wong could use the proceeds of that share sale to repay a HK$2.4 billion personal loan to a financial institution.

The SFC alleges that the share repurchase had a negative impact on the Company's financial position and was not in the best interests of the Company and its shareholders. The SFC alleges that it provided the demand for the Company's shares and stabilised its share price when Mr. Wong disposed of his shares, thereby enabling him to earn more from his share sale. The SFC also alleges that this transaction was a fraud or deception in a transaction involving securities and caused a loss of approximately HK$1.6 billion to the Company and its shareholders.

The SFC is seeking orders that Mr. Wong, Ms. Du Juan and two companies owned and controlled by them:

- to restore the parties to any transaction, in particular the Company, to the position in which they were before the transaction was entered into; and/or

- to pay damages to the Company.

The injunction serves to prevent the dissipation of assets pending the conclusion of the SFC's investigation and to ensure that there are sufficient assets to satisfy any restoration or compensation orders, if orders are made against Mr. Wong, Ms. Du Juan and the two companies.

Court continues orders against Mr. Wong and his spouse

The order is an ex parte interim injunction obtained by the SFC. The defendants have not yet had a chance to reply to the SFC's allegations.

On 7 August 2009, the Company announced that it has been provided with a copy of the court order (the "**Court Order**") by the SFC and confirmed that (a) the Company is not a defendant to the Court Order; and (b) the assets of the Company are not subject to the Court Order. In view of the above, the business of the Company or its subsidiaries is not and will not be adversely affected by the Court Order.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

24. CONTINGENCIES (continued)

(b) Enforcement action by the Securities and Futures Commission (continued)

Court continues orders against Mr. Wong and his spouse (continued)

According to the enforcement news of the SFC dated 8 September 2009, the High Court ordered the two companies associated with Mr. Wong and Ms. Du Juan not to dispose of, deal with or encumber 779,255,678 shares of the Company pending further order.

The two companies, Shinning Crown Holdings Inc. and Shine Group Limited, deposited with the court share certificates representing these shares pursuant to the interim injunctions ordered against them, Mr. Wong and Ms. Du Juan, freezing their assets up to the amount of HK$1,655,167,000.

The delivery of these share certificates into the custody of the court, together with the orders made on 8 September 2009 prohibiting the disposal of the shares, will preserve them for the purposes of the legal proceedings initiated by the SFC. Accordingly, the interim injunctions against the two companies were discharged. However, the interim injunctions remain effective against Mr. Wong and Ms. Du Juan.

Separately, the court declined to order the defendants to provide additional assets if the value of the Company's shares deposited with the court fell below HK$1,655,167,000.

The SFC is obliged to comply with and follow the court's rules and procedures for due service of the proceedings on Mr. Wong and Ms. Du Juan in the PRC. This process started after the SFC commenced these proceedings. The SFC continues to liaise with PRC authorities with a view to assisting the court to effect service on them.

Other than the above, the Group did not have any significant contingencies at the end of the reporting period.

25. LITIGATION

As set out in the Company's announcement dated 1 March 2010, on 25 February 2010, GOME Appliance Company Limited, a wholly owned PRC subsidiary of the Company (the "**Subsidiary**"), received a copy of indictment (the "**Indictment**") in respect of an alleged bribery offence by organization served by the Second Intermediate People's Court of Beijing Municipality.

According to the Company's announcement dated 19 May 2010, on 18 May 2010, the Subsidiary has been fined RMB5 million by the Beijing Second Intermediate People's Court in relation to an offence of bribery by enterprise committed between 2006 and 2008 during which time Mr. Wong was the chairman of the Company and the legal representative of the Subsidiary. The Company respects the above judgement of the court and confirms that the fine does not have any substantive adverse impact on the operation and financial condition of the Company.

26. EVENTS AFTER THE REPORTING PERIOD

As set out in the Company's announcement dated 5 August 2010:

CLAIM AGAINST MR. WONG

The Company announced that following an internal investigation over the past few months, the Board of Directors (the "Board") has resolved, among other things, to institute legal proceedings against its indirect shareholder and former executive director, namely, Mr. Wong, seeking compensation in connection with, among other things, his alleged breach of his fiduciary duties as a director of the Company relating to the repurchases of the Company's own shares in or about January and February 2008, and breach of trust (collectively referred to as the "**Breaches**").

The Company has filed a writ of summons against Mr. Wong for the Breaches in the High Court of the Hong Kong Special Administrative Region on 5 August 2010 to claim for damages suffered by the Company as a result of the Breaches.

Notes to the Interim Financial Information (continued)

As at 30 June 2010

26. EVENTS AFTER THE REPORTING PERIOD (continued)

REQUISITION LETTER RECEIVED FROM A COMPANY WHOLLY-OWNED BY MR. WONG

The Company also announces that following the Board's decision to proceed with legal proceedings in respect of the Breaches, it received a letter (the "**Requisition Letter**") from Shinning Crown Holdings Inc, a company wholly-owned by Mr. Wong and a substantial shareholder of the Company, on 4 August 2010 which was further supplemented by a letter received on 5 August 2010, proposing that the following resolutions be put to shareholders of the Company at a special general meeting ("**SGM**"):

- the cancellation of the Company's general mandate, as passed at this year's annual general meeting of the Company
- the removal of Chen Xiao as executive director and chairman of the Board
- the removal of Sun Yi Ding from his duties as executive director of the Company, while maintaining his operational role as a vice president of the Company
- the nomination of Zou Xiao Chun as executive director of the Company
- the nomination of Huang Yan Hong as executive director of the Company

The Company has up to 21 days to formally consider its response to the Requisition Letter before it is obliged to give notice convening an SGM under the Bermuda Companies Act 1981.

Save as disclosed above, the Group did not have any significant events taking place subsequent to 30 June 2010.

27. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited Interim Financial Information was approved and authorised for issue by the board of directors on 23 August 2010.

DISCLOSURE OF INTERESTS

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

As at 30 June 2010, the interests and short positions of the Directors and the chief executive of the Company 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 (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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), (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares, the underlying shares and debentures of the Company

Name of Director	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	22,000,000 *(Note 1)*	–	206,061,228 *(Note 2)*	–	228,061,228	1.51
Wang Jun Zhou	20,000,000 *(Note 1)*	–	–	–	20,000,000	0.13
Wei Qiu Li	18,000,000 *(Note 1)*	–	–	–	18,000,000	0.12
Sun Yi Ding	13,000,000 *(Note 1)*	–	–	–	13,000,000	0.09
Ng Kin Wah	10,000,000 *(Note 1)*	–	–	–	10,000,000	0.07
Zhu Jia	1,168,920	–	–	–	1,168,920	0.01

Notes:

1. The relevant interests represent the number of Shares issuable upon exercise of the options (the "Option(s)") granted to these Directors pursuant to the share option scheme adopted by the Company on 15 April 2005 (the "Share Option Scheme") as was particularly described in the section headed "Share Option Scheme" below. These Options were held by these Directors beneficially.

2. These Shares were held by Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao.

Additional Information (continued)

Short positions in the shares, the underlying shares and debentures of the Company

	Number of Shares held					
Name of Director	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	–	–	20,000,000 *(Note)*	–	20,000,000	0.13

Note: These interests were held by Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao.

Save as disclosed above, as at 30 June 2010, none of the Directors and the chief executive of the Company had any interest in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) 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), (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) PARTICULARS OF THE DIRECTORS' SERVICE CONTRACTS

As at 30 June 2010, none of the Directors of the Company 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 2010, no Directors is interested in a business (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.

(d) DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

During the six months period ended 30 June 2010, none of the Company, its subsidiaries or its holding company was a party to any arrangements which enable the Directors to acquire shares in or debentures of the Company or any other body corporate.

(e) MATERIAL SUPPLEMENTS TO DIRECTORS' PROFILE

With effect from 28 June 2010, Mr. Chen Xiao has resigned as the President of the Group and remains as an executive Director and the Chairman of the Group.

With effect from 28 June 2010, Mr. Wang Jun Zhou was appointed the President of the Group and ceased to be the Executive Vice President of the Group.

With effect from 11 May 2010, Mr. Chan Yuk Sang was appointed as an independent non-executive director of Imagi International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited.

In April 2010, Mr. Thomas Joseph Manning was appointed to be the chief executive officer of Cerberus Asia Operations & Advisory Limited which is owned by Cerberus Capital Management, a global private equity firm. Formerly, he was the chief executive officer of Indachin Limited.

SHARE OPTION SCHEME

As at 30 June 2010, Options to subscribe for an aggregate of 364,200,000 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

			Number of Options				
Name of grantee	**Date of grant**	**Exercise price per Share**	**As at 1 January 2010**	**Granted during the period**	**Exercised during the period**	**Cancelled/ lapsed during the period**	**As at 30 June 2010**
		HK$					*(Note 1)*
Directors							
Chen Xiao	7 July 2009	1.90	22,000,000	–	–	–	22,000,000
Wang Jun Zhou	7 July 2009	1.90	20,000,000	–	–	–	20,000,000
Wei Qiu Li	7 July 2009	1.90	18,000,000	–	–	–	18,000,000
Sun Yi Ding	7 July 2009	1.90	13,000,000	–	–	–	13,000,000
Ng Kin Wah	7 July 2009	1.90	10,000,000	–	–	–	10,000,000
Senior management							
Fang Wei	7 July 2009	1.90	10,000,000	–	–	–	10,000,000
Li Jun Tao	7 July 2009	1.90	18,000,000	–	–	–	18,000,000
He Yang Qing	7 July 2009	1.90	10,000,000	–	–	–	10,000,000
Mu Gui Xian	7 July 2009	1.90	13,000,000	–	–	–	13,000,000
Other employees *(Note 2)*	7 July 2009	1.90	240,700,000	–	–	(10,500,000) *(Note 5)*	230,200,000
Total			374,700,000	–	–	(10,500,000)	364,200,000

The closing price of the Company's Shares immediately before 7 July 2009, being the date of grant of the Options, was HK$1.76 per Share.

Additional Information (continued)

Notes:

1. Each Option has a 10-year exercise period and may be exercised after the expiry of twelve months from the date of the grant of options.

   Each grantee may exercise up to 25%, 50%, 75% and 100% of the Options granted commencing from the first, second, third and fourth anniversaries, respectively, of the date of the grant of the Options.

2. 90 employees have been granted Options under the Share Option Scheme to acquire an aggregate of 230,200,000 Shares at HK$1.90 per Share.

3. The fair value of Options granted on 7 July 2009 under the Share Option Scheme, determined by using the Binomial Model value model, was approximately RMB296.45 million. The significant inputs into the model were the exercise price and stock price as at grant date of HK$1.90, expected volatility and historical volatility of 63%, expected dividend yield rate of 1.2% and annual risk-free interest rate is 2.565%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

4. The vesting period of these Options is from the date of grant until the commencement of the exercise period mentioned above.

5. 10,500,000 Options had been cancelled during the 6 months period ended 30 June 2010.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 30 June 2010, 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 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 under Section 336 of the SFO or were 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
Mr. Wong Kwong Yu *(Note 1)*	Long position	5,116,439,490	33.98
Shinning Crown Holdings Inc. *(Note 2)*	Long position	4,249,000,000	28.22
Bain Capital Investors, LLC *(Note 3)*	Long position	1,627,924,595	10.81
JPMorgan Chase & Co *(Note 4)*	Long position	1,075,790,375	7.15
	Short position	66,388,946	0.44
	Lending pool	592,526,514	3.94
Morgan Stanley *(Note 5)*	Long position	1,068,319,920	7.10
	Short position	335,571,366	2.23
FIL Limited *(Note 6)*	Long position	903,736,700	6.00

Notes:

(1) Of these 5,116,439,490 Shares, 4,249,000,000 Shares were held by Shinning Crown Holdings Inc. and 624,453,890 Shares were held by Shine Group Limited (both companies are 100% beneficially owned by Mr. Wong), and 237,321,600 Shares were held by Smart Captain Holdings Limited and 5,664,000 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong).

(2) Shinning Crown Holdings Inc. is 100% beneficially owned by Mr. Wong.

(3) These Shares represent unlisted derivatives held by Bain Capital Investors, LLC (which will be physically settled) through its interests in controlled corporations.

(4) JPMorgan Chase & Co. held long position in 128,613,002 Shares and short positions in 66,388,946 Shares in its capacity as beneficial owner, long position in 354,650,859 Shares in its capacity as investment manager, and long position in 592,526,514 Shares in the lending pool in its capacity as custodian corporation/approved lending agent. Of these Shares, 59,074,795 Shares are listed derivatives which will be physically settled.

(5) Morgan Stanley was interested in these Shares through its interests in controlled corporations.

(6) FIL Limited was interested in the shares in its capacity as investment manager.

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

As at 30 June 2010, so far as is known to any Director or chief executive of the Company, 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 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.

OTHER INFORMATION

INTERIM DIVIDEND AND DIVIDEND POLICY

The Board does not recommend the payment of interim dividend so as to preserve for funding needs for future development. Currently, the Board anticipate that the dividend payout ratio will be maintained at not more than 30% of the Group's distributable profit of the relevant financial year. However the actual payout ratio in a financial year will be determined at the Board's full discretion, after taking into account, among other considerations, business environment and availability of investment opportunities.

Additional Information (continued)

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

On 18 May 2010, the Company had redeemed the Old 2014 Convertible Bonds in the principal amounts of RMB2,625,900,000. The redeemed bonds had been cancelled upon settlement. As at 30 June 2010, the outstanding principal amount of the Old 2014 Convertible Bonds was RMB149,400,000.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the 6 months period ended 30 June 2010.

CHANGES IN THE BOARD

Changes in the Board since 31 December 2009 are as follows:

As disclosed in the announcement of the Company dated 12 May 2010, Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong were not re-elected as the non-executive Directors by the shareholders at the annual general meeting of the Company held on 11 May 2010 and were re-appointed by the Board as non-executive Directors on the same day after the said annual general meeting.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the six months ended 30 June 2010.

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

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separate and should not be performed by the same individual. As disclosed in the announcements of the Company dated 28 November 2008 and 18 January 2009, as a result of Mr. Wong Kwong Yu's inability to perform his duties as a Director and the Chairman of the Company, the Board appointed Mr. Chen Xiao who was an executive Director and the President of the Company at that time as the Acting Chairman of the Company with effect from 27 November 2008 and subsequently the Chairman of Company with effect from 16 January 2009. As Mr. Chen Xiao, who was the President of the Company until 28 June 2010, has been performing the role and function of the chief executive officer of the Company as well as the Chairman of the Board until 28 June 2010, when Mr. Wang Jun Zhou was appointed as the President of the Group as more particularly described below, it constituted a deviation from code provision A.2.1 of the CG Code during the period from 27 November 2008 to 28 June 2010. Given that Mr. Chen Xiao had been the President of the Company since completion of the Group's acquisition of China Paradise Electronics Retail Limited (which he founded) and has over 20 years of experience in the electrical and electronic retail sector in China, the Board believes that it was then in the best interest of the Group and its shareholders as a whole to have Mr. Chen Xiao to perform the functions and roles as the President and the Chairman of the Company during the interim period to provide stability to the Group and to oversee the operations of the Group in the circumstances.

With the crisis of the Group over, the Board reviewed the effectiveness of the Group's corporate governance structure, including separation of the roles of the Chairman and the President of the Company, and appointed Mr. Wang Jun Zhou as the President of the Company in place of Mr. Chen Xiao with effect from 28 June 2010 in order to satisfy the requirement for separation of roles of the Chairman and the chief executive officer of the Company under the CG Code. Since then, the roles and functions of the Chairman and the chief executive officer of the Company have been performed by Mr. Chen Xiao and Mr. Wang Jun Zhou respectively in compliance with the CG Code.

During the period under review until 28 June 2010, Mr. Chen Xiao served as the Chairman of the Company, who was primarily responsible for providing leadership to the Board, and also served as the President of the Company and an executive Director, undertaking the duties of the chief executive officer of the Company to oversee the business of the Group and executing decisions of the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Additional Information (continued)

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The information required for disclosure under Rules 13.20 of the Listing Rules in relation to the Company's advance to an entity is as follows:

As at 30 June 2010, 天津國美商業管理咨詢有限公司 (Tianjin Gome Commercial Consultancy Company Limited) ("Tianjin Consultancy") had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2009: RMB3.6 billion) (the "Advance") to 北京戰聖投資有限公司 (Beijing Zhansheng Investment Co., Ltd.) ("Beijing Zhansheng"), a third party independent of each of the Company and its connected persons (within the meaning of the Listing Rules), through 興業銀行股份有限公司北京分行 (Beijing Branch of Industrial Bank Co., Ltd) (the "Lending Bank") pursuant to the loan agreement entered into between Tianjin Consultancy, Beijing Zhansheng and the Lending Bank on 14 December 2007. The Advance is to be used by Beijing Zhansheng for the sole purpose of acquisition of the entire registered capital of 北京市大中家用電器連鎖銷售有限公司 (Beijing Dazhong Home Appliances Retail Co., Ltd.). The Advance is a secured loan. The term of the Advance is initially from 14 December 2007 to 13 December 2008 and the interest rate was 6.561% per annum. It has been renewed and extended to 12 December 2009 in year 2008, and the interest rate was 5.103% per annum. It has been further renewed for a period of two years from 15 December 2009 to 14 December 2011 in year 2009 and the interest rate is 4.86%. As at 30 June 2010, the Advance was RMB3.6 billion and the Advance represented approximately 10.71% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee of the Company has reviewed this interim report of the Company, together with the internal control and financial reporting matters of the Group, which includes the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2010 as reviewed by Ernst & Young, the external auditors.

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

CHEN Xiao *(Chairman)*
NG Kin Wah
WANG Jun Zhou
WEI Qiu Li
SUN Yi Ding

NON-EXECUTIVE DIRECTORS

ZHU Jia
Ian Andrew REYNOLDS
WANG Li Hong

INDEPENDENT NON-EXECUTIVE DIRECTORS

SZE Tsai Ping, Michael
CHAN Yuk Sang
Thomas Joseph MANNING

COMPANY SECRETARY

WOO Ka Biu, Jackson

AUTHORISED REPRESENTATIVES

CHEN Xiao
NG Kin Wah

PRINCIPAL BANKERS

Bank of Shanghai
China Construction Bank
CITIC Bank
Industrial Bank Co., Ltd.
China Merchant Bank
Agricultural Bank of China

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 Fulcrum Group (Bermuda) Limited
11 Bermudiana Road
Pembroke HM08
Bermuda

SHARE REGISTRARS IN HONG KONG

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong