国美电器 | Stock Code:493

# OMNI-CHANNEL NEW SCENARIO STRONG LINKAGE

Interim Report 2016

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**OMNI – CHANNEL**
**NEW SCENARIO**
**STRONG LINKAGE**

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

INTERIM REPORT 2016

# FINANCIAL HIGHLIGHTS AND BUSINESS SUMMARY

## Financial Highlights

| | **First half of 2016 RMBm** | First half of 2015 RMBm |
|---|---|---|
| Revenue | **35,312** | 31,692 |
| Gross profit | **4,771** | 4,712 |
| Consolidated gross profit margin* | **16.37%** | 17.70% |
| Profit before finance (cost)/income | **28** | 694 |
| Profit attributable to owners of the parent | **124** | 687 |
| Earnings per share | | |
| – Basic and diluted | **RMB0.6 fen** | RMB4.1 fen |
| Interim dividend per share | **–** | HK2.10 cents |

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

## Business Summary

- Pursuing to the strategic plan of "Omni-Channel, New Scenario, Strong Linkage" proposed by the Group in 2015, the Group entered into the implementation phase of transformation in 2016
- Establishment of New Scenarios was the focus for the offline stores
- Online e-commerce business achieved high growth
- The Group's online-offline total GMV increased by 21.67% year-on-year with a 101.24% growth in e-commerce.
- The acquisition of Artway Development Limited and its subsidiaries was completed on 31 March 2016. As the result, the Group has transformed from a regional platform to a nationwide leading retail platform, the total number of stores as at 30 June 2016 increased by 541 and reached a total of 1,727

## Overview

During the six-month period ended 30 June 2016 (the "Reporting Period"), GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") actively adjusted its strategic plan in accordance with the changing market environment and launched the "Total Retail Community Building with Omni-Channel, New Scenario and Strong Linkage" strategic objective to position itself for long term, sustainable competitiveness and growth.

The Group has been working hard during the Reporting Period to direct its resources to the strategic development of new scenario offline physical stores and e-commerce. Large stores in the first-tier market have been transformed in great scale after the traffic-based concept of "Stores Offering New Scenario Experience" had been implemented. Meanwhile, the Group has been expanding its online business rapidly. However, due to the renovation work being carried out at some major stores in the first-tier market and the rapid growth of e-commerce, the Group's consolidated gross profit margin and profitability were somewhat affected during the Reporting Period.

On 31 March 2016, the Group announced the completion of the major and connected transaction in relation to the acquisition of Artway Development Limited and its subsidiaries (the "Target Group"). With all the conditions of the acquisition satisfied, the Target Group's financials were officially consolidated with the Group's since 1 April 2016.

During the Reporting Period, the Group's online-offline total gross merchandise volume ("GMV") increased by 21.67% year-on-year, with a 101.24% growth in e-commerce. The Group recorded sales revenue of approximately RMB35,312 million, representing an increase of 11.42% as compared with RMB31,692 million for the corresponding period last year. Online sales rose by 63.01% to approximately RMB4,614 million, and comparable stores sales declined by 9.93%. As a result of transformation of the stores in the first-tier market and continuing high-speed growth in the e-commerce business, consolidated gross profit margin was lowered by 1.33 percentage points, from 17.70% in the corresponding period last year to approximately 16.37%. The Group's operating expense ratio rose from 15.51% in the corresponding period last year to approximately 16.29%, representing an increase of 0.78 percentage point over the period.

Overall, the Group's profit attributable to owners of the parent was approximately RMB124 million, representing a decrease of 81.95% as compared with RMB687 million for the corresponding period last year. In addition, the Group's cash and cash equivalents increased to approximately RMB11,326 million as at 30 June 2016 from RMB7,438 million recorded as at 31 December 2015.

The management believes that the investment and constructive steps taken by the Group in 2016 will speed up its flow volume as well as the conversion rate, and drive superior earnings growth in the future.

## Industry Overview

Global economic recovery remained weak in 2016, developed economies continued to suffer from low long-term economic growth and inadequate aggregate demand. The downward growth in the emerging economies is also difficult to be effectively curbed. The chances of raising interest rates is increasing as declared by the US Federal Reserve, countries in the emerging market have been facing severer challenges such as capital outflows, currency depreciation, and volatile stock market. In addition, all of the inconsistencies of major economies' macroeconomic policies, large-scale capital flows, foreign exchange and financial markets turmoil, geopolitical issues and natural disasters have brought significant negative interference to the global economy.

In terms of the domestic economic situation in 2016, the macro economy growth rate is slowing, but there are signs appearing indicating that it is gradually bottoming out. Affected by the continuing slowdown in international economy, export in the first half of 2016 is less optimistic due to the weak demand both externally and internally. Expansionary monetary policies and financing environment have made M2 (which reflects the current and potential purchasing power) and capital market maintain a growth momentum.

The retail industry in 2016 is still enduring several challenges such as a slow down in growth rates, high production costs and squeezing profit margins. Business mergers and acquisitions in the industry are accelerating which resulted in market consolidation. E-commerce's rapid growth of GMV has forced traditional retailers to seek new opportunities elsewhere, resulting in groups of stores with identical or similar outlook collapsing but a variety of experience stores, second-generation modular stores and other scenarios stores have gained much more consumer traffic gradually and displacing the traditional stores. At the same time, benefiting from policy supports from the government and consumers' new demand, a series of cross-border e-commerce projects have mushroomed.

## Business Review

### Omni-Channel Interface Platform Development

**(1) Establishing Smart Stores Offering New Scenario Experience**

During the Reporting Period, the Group has focused on establishing smart stores offering "new scenario experiences" and carried out the trial remodelling of some of the major stores in Beijing, Shanghai, Tianjin, Chengdu and Ningbo, etc. The new scenario transformation mainly consist of the introduction of virtual reality (VR) zone, unmanned aerial vehicles (UAV) zone, fruits and vegetables experience zone, game zone, cafes with kitchens, cooking workshops, air purifier zone and purified water experience zone, etc., aiming at guiding consumers towards innovative technologies to enhance their lifestyles. The new scenario stores have impressed both the consumers and the market, especially the younger generation.

In the second half of 2016, the Group will further explore the construction of new scenarios and more attractive retail models. The Internet TV, another key project will be developed with customizable features, aiming to ultimately create a home theater concept. In the "customized, fragmented and diversified," consumer age, the Group will also be strengthening the linkage with customers and creating new traffic portals through the "GOME House Manager" service platform along with over 100,000 micro-shops, and cinemas, home decoration experience centers, baking and dining classrooms and other consumer attraction scenarios.

**(2) Optimizing Store Network**

During the Reporting Period, the Group optimized its store network in the first-tier market. It established flagship stores in core properties located in prime business districts, closely monitored satellite and community stores, and closed loss-making stores. In the second-tier market, the Group closed the under-performing stores, directed resources to its core flagship stores, and established new low-cost stores in areas where the model was competitive. The Group continued to penetrate into the third and fourth tier cities by acquiring local retail brands that previously held large shares of those markets, further optimizing the Group's network in the second-tier market.

The acquisition of the Target Group was competed on 31 March 2016, and the Group transformed itself from a regional platform to a nationwide leading retail platform where the market share has further increased. As at 30 June 2016, the total number of stores of the Group, including those from the Target Group, was 1,727.

## The Nationwide Retail Network of the Group

As at 30 June 2016

***Development of Store Network:***

| | Group |
|---|---|
| As of 31 Dec 2015 | 1,223 |
| Number of stores newly opened | 51 |
| Number of stores closed | (88) |
| **As of 30 Jun 2016** | **1,186** |
| | **Target Group[1]** |
| As of 31 Mar 2016 | 556 |
| Number of stores newly opened | 16 |
| Number of stores closed | (31) |
| **As of 30 Jun 2016** | **541** |
| **As of 30 Jun 2016 Enlarged Group Total** | **1,727** |

| | Group | | | | Target Group | Enlarged |
|---|---|---|---|---|---|---|
| | GOME | China Paradise | Dazhong | CellStar | GOME | Group Total |
| Flagship stores | 206 | 39 | 26 | – | 107 | 378 |
| Standard stores | 310 | 42 | 18 | – | 144 | 514 |
| Specialized stores | 424 | 68 | 5 | 48 | 290 | 835 |
| Total | 940 | 149 | 49 | 48 | 541 | 1,727 |
| Among them: | | | | | | |
| First-tier market | 492 | 99 | 39 | 38 | 273 | 941 |
| Second-tier market | 448 | 50 | 10 | 10 | 268 | 786 |
| Net increase/(decrease) in store number | (25) | (8) | (2) | (2) | (15) | (52) |
| Number of stores opened | 42 | 6 | 1 | 2 | 16 | 67 |
| Among them: | | | | | | |
| First-tier market | 20 | 3 | – | 2 | 8 | 33 |
| Second-tier market | 22 | 3 | 1 | – | 8 | 34 |
| Number of cities accessed | 270 | 60 | 1 | 6 | 167 | 428 |
| Among them: | | | | | | |
| First-tier cities | 21 | 9 | 1 | 1 | 15 | 38 |
| Second-tier cities | 249 | 51 | – | 5 | 152 | 390 |
| Number of cities newly assessed | 10 | – | – | – | – | 10 |

*Note:*

1. Target Group: Artway Development Limited and its subsidiaries.

***List of stores:***

| Region | Group Flagship stores | Group Standard stores | Group Specialized stores | Group Total |
|---|---|---|---|---|
| Beijing | 47 | 29 | 5 | 81 |
| Shanghai | 30 | 10 | 15 | 55 |
| Tianjin | 15 | 14 | 6 | 35 |
| Chengdu | 17 | 33 | 19 | 69 |
| Chongqing | 13 | 20 | 22 | 55 |
| Xi'an | 17 | 20 | 68 | 105 |
| Shenyang | 13 | 10 | 11 | 34 |
| Qingdao | 12 | 11 | 16 | 39 |
| Jinan | 10 | 15 | 14 | 39 |
| Shenzhen | 21 | 24 | 33 | 78 |
| Dongguan | 1 | 11 | 5 | 17 |
| Guangzhou | 15 | 33 | 55 | 103 |
| Foshan | 6 | 11 | 16 | 33 |
| Wuhan | 7 | 23 | 35 | 65 |
| Kunming | 5 | 7 | 21 | 33 |
| Fuzhou | 6 | 14 | 23 | 43 |
| Xiamen | 4 | 10 | 30 | 44 |
| Henan | 6 | 22 | 25 | 53 |
| Nanjing | 5 | 16 | 18 | 39 |
| Wuxi | 1 | 3 | 7 | 11 |
| Changzhou | 2 | 6 | 2 | 10 |
| Suzhou | 4 | 5 | 11 | 20 |
| Hefei | 4 | 7 | 6 | 17 |
| Xuzhou | 1 | 5 | 14 | 20 |
| Tangshan | 3 | – | 3 | 6 |
| Lanzhou | 5 | 5 | 9 | 19 |
| Wenzhou | – | 1 | 9 | 10 |
| Jiangxi | 1 | 5 | 47 | 53 |
| Total | 271 | 370 | 545 | 1,186 |

| Region | Target Group Flagship stores | Target Group Standard stores | Target Group Specialized stores | Target Group Total |
|---|---|---|---|---|
| Anshan | 2 | 2 | 1 | 5 |
| Dalian | 7 | 11 | 13 | 31 |
| Guangxi | 4 | 6 | 31 | 41 |
| Guizhou | 2 | 6 | 10 | 18 |
| Hebei | 5 | 5 | 13 | 23 |
| Henan | 6 | 18 | 27 | 51 |
| Heilongjiang | 11 | 5 | 18 | 34 |
| Hunan | 4 | 10 | 22 | 36 |
| Jilin | 4 | 2 | 7 | 13 |
| Jiangxi | 3 | 6 | 20 | 29 |
| Nantong | – | 3 | 9 | 12 |
| Inner Mongolia | 4 | 5 | 9 | 18 |
| Ningbo | 3 | 6 | 25 | 34 |
| Xiamen | 1 | 5 | 3 | 9 |
| Shanxi | 7 | 12 | 15 | 34 |
| Shanghai | 22 | 15 | 5 | 42 |
| Wuxi | 3 | 3 | – | 6 |
| Xi'an | 1 | 2 | 2 | 5 |
| Xinjiang | 6 | 13 | 12 | 31 |
| Changchun | – | 1 | 10 | 11 |
| Zhejiang | 12 | 8 | 38 | 58 |
| Total | 107 | 144 | 290 | 541 |
| Enlarged Group Total | 378 | 514 | 835 | 1,727 |

**(3) Strong Linkage between GOME and Consumers**

***"GOME TOGO" Micro Shops***

During the Reporting Period, the "GOME TOGO" micro shops reached 112,000 in aggregate. The Group has created a GOME self-media ecosystem through in-depth communication and linkage between GOME staff and customers, allowing GOME to successfully influence wider audiences and achieve a rapid growth in GMV with low costs. In the second half of 2016, "GOME TOGO" micro shops will focus on bringing new traffic to offline physical stores and creating a new retail network beyond the "8 Working Hours" by interaction with customers and marketing activities.

***"GOME House Manager" After-Sale Service O2O Platform***

The Group has penetrated into the after-sale services market of home appliances this year and has extended from appliance selling to appliance services by leveraging on its front-end store network and back-end supply chain. "GOME House Manager" established a strong linkage with consumers in a "self-operation plus a third-party agency" mode where appliance services were the core parts. As an O2O service platform, GOME House Manager has not only provided users with repairing, cleaning and recycling services of home appliances, but also established a mobile terminal on which the content of delivery information, e-manual and e-warranty cards are available to consumers timely. Solid linkages among customers, stores, logistics and after-sale services were effectively built with better user experiences. After six months' construction and promotion, the Group has been providing services to 90% of the prefecture-level cities in China except for Tibet, Qinghai and Inner Mongolia regions, with more than 1 million users on the platform.

***Carnival and Special Event Sales***

Since 2015, the Group has carried out several welfare days, which have achieved impressive results. During the Reporting Period, the Group has continued to launch the "11 March Black Friday", "15 April" and "17 June" in-house sale carnivals and explore new marketing models. The "15 April" welfare day enabled an innovative style, introducing a unique "Crowdfunding Partners Sharing" campaign, by which consumers could enter a website to participate in crowdfunding before the events start and they can receive a discount on their purchases once the "crowdfunding" goal was hit. This model was proved to be able to effectively attract more customers.

**(4) Accelerating the Development of GOME-on-line**

During the Reporting Period, GOME-on-line has been focusing on several aspects, including customer experience, brand building and logistics services.

**Customer Experience:** GOME-on-line focused on areas such as homepage style redesigning, multi-channel supermarket pages establishment and optimization, homepage and product page performance booming and brand image strengthening, both for the terminals of the PC and mobile. It has greatly enhanced the overall visual and interactive experience as well as the loyalty of customers.

**Brand Building:** In April 2016, GOME-on-line officially launched its new logo and mascot, an energetic little tiger and it inserted the little tiger, static or dynamic, into its APP starting up animation, users' default profile photos, WeChat Moment icons and chat room animations to strengthen GOME-on-line's new brand image and grab the sight of younger customers.

**Logistics Services:** With an aim of "Complete Coverage in Delivery, 7x24 hour Delivery On-demand", GOME-on-line optimized its logistics delivery services. Currently, GOME-on-line is able to provide 7x24 hour scheduled delivery, and has promised delivery arrivals within the same day for order submission in the morning and within the next day for order submission in the afternoon and evening. GOME-on-line has realized the Complete Coverage in Delivery in 366 prefecture-level cities nationwide.

**(5) Cross-Border E-commerce**

In the first half of 2016, the Group's International Trading project has achieved rapid expansion in global business. Direct products selecting and purchasing from Australia were realized. Currently, the Australian channel has brought in 350 local products, covering health products, food, toiletries, wine and other special products in Australia. Besides, GOME Gastronome Project will be launched soon to further engage in the fresh seafood and agricultural products through general and cross-border trade. In addition, the Korean channel was opened in June, the International Trading project has been in cooperation with INTERPARK, the second-largest Internet network operator in Korea, who would be responsible for the operations and merchants of the Korean channel, presenting authentic Korean fashion. Meanwhile, to replicate the Korean channel, Hong Kong channel and Taiwan channel are expected to be launched shortly.

## Supply Chain Platform Development

**(1) Optimizing Logistics Distribution**

During the Reporting Period, the Group transformed its logistics services platform from a supporting department to the front line which operated independently. This led to significant improvements in operation management and service quality.

**Operation Management Improvements:** The Group has improved the logistics efficiency through the following aspects: (1) implemented multi-typed goods code scanning system, which has improved inbound and outbound logistics efficiency and accuracy; (2) optimized the linkage between the cost and freight rates to make it more fair and reasonable and to achieve the win-win model with third-party logistics companies; (3) controlled self-owned vehicles by IT systems and completed vehicle cost reduction and process reengineering; (4) redesigned warehouses to achieve higher efficiency and utilization rate; (5) endeavored to build up regional small-size goods warehouses and the backbone logistics network nationwide.

**Service Quality Improvement:** The Group has made a finely sorted performance evaluation index for customer service staff, focusing on job accomplishment rates. We have had full-process monitoring on "approach, engagement, commencement, operation and accomplishment", by which method we have achieved seamless inter-department cooperation and guaranteed the service quality.

**(2) Improving Quality of After-sales Services**

During the Reporting Period, the after-sales companies of the Group have actively diversified their business lines, trained workers for skill improvement and tightly monitored the service quality to achieve a bigger market share in the home appliances market. In order to build a professional team, the after-sales companies focused on the versatile skills of the staff members. Furthermore, to keep pace with the current market environment, the Group has been offering a variety of training programs to its staff aiming to provide professional and comprehensive services to customers. In terms of the management of third-party service providers, the Group adopted a multifaceted and comprehensive appraisal method to ensure the efficiency of solving customers' problems.

**(3) Strengthening Information System**

During the Reporting Period, the research ability of our information center has been greatly improved with a great deal of intellectual property springing up. Besides meeting business requirements and elevating customers satisfaction, the Group has made great progress in mobile technologies, internet technologies and cloud computing.

**GOME's New Logistics Management Information System (LMIS) Project:** This project aims to provide logistics system with independent intellectual property rights of the Group to meet market demands. The project includes two main contents:

(1) integrating the orders to the logistics business of the Group with orders to the third-party logistics service providers;

(2) using the Personal Digital Assistant (PDA) to scan the International Article Number codes of goods, enabling multi-typed goods code scanning.

**Overseas Commodity Supermarket (POS) Program:** This program aims to build a professional info-system with advanced management experience for the overseas commodity chain supermarkets. Once the program is completed, the system of the overseas commodity store will be fully connected with other systems of the Group, integrating with other businesses divisions to support business informatization for the whole Group.

**(4) Open Supply Chain Platform**

During the Reporting Period, the Group has processed a strategic cooperation with Amazon and extended key values of the Group's supply chain to other e-commerce platforms. By analyzing customers' shopping habits through accumulated big data, the Group is able to provide differentiated products to satisfy customers' specific needs, the competitive edge of offline physical stores, GOME-on-line and micro shops would be strengthened.

To gain more exposure for non-home appliances products on the micro shops and to attract a wider and diversified group of customers, the Group has built an open third-party cooperation platform. A quality supply chain is then established which provides new experiences for customers.

## Corporate Governance

The Group strives to continuously improve its corporate governance. Currently, the board of directors of the Company (the "Board") consists of one executive director, three non-executive directors and four independent non-executive directors. This Board structure complies with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that at least one-third of the directors should be independent directors to ensure the independence of the Board. Therefore, shareholder opinions are thoroughly deliberated by the Board in a constructive manner before it reaches a consensus.

## Corporate Culture

GOME's staff adhere to the Group's brand philosophy and corporate culture, built around "trust". The trust-centric culture has been fulfilled by both the general and managerial level staff, and has been integrated into every aspect of the daily operation of "morality, behavior, knowledge, ability" of its staff, in order for the Group to build itself into an organization with positivity, proactivity and enthusiasm. We are currently in the "Internet plus" era, in which the term "trust" has been widely and extensively redefined under this changing environment. In 2016, the Group has uncovered a deeper understanding of "trust", which extended to several contemporary keywords including "innovation", "honesty" and "passion". In addition, staff in GOME would join various kinds of activities regularly to experience and understand the trust-centric culture in the new age, as well as further put it into practice.

## Talent and Expertise

During the Reporting Period, in the aspect of human resource development, the Group continued its personnel development and leadership training programs including "Executive Development Programs" ("EDP"), "Middle-level Career Accelerator", and "Reservoir Project", together with various programs relevant to the strategy and new business of the Group, including "Linking the Future", "New Business Training Programs", etc. In addition, combining with the characteristics of its human resource structure, the Group has initiated a series of programs to provide designated training for people with different ages, education and backgrounds, including "Working with the 1990s generations", "Future Star Program" especially for fresh graduates, etc. Besides, vigorously supported by the mobile information and Internet technology, the Group has diversified its existing class training and E-College and set up comprehensive training platforms, including WeChat study group "Peixunjianghu" and mobile training APPs for the acceleration of sustainable human resource development of the Group.

As at 30 June 2016, the Group had a total of 50,835 employees.

## Financial Review

The financial information disclosed below includes the data of the Target Group from 1 April 2016, but does not include the figures of the Target Group from January to June 2015 and from January to March 2016. Since all conditions precedent to the acquisition of the Target Group have been fulfilled on 31 March 2016, the financial information of the Target Group has been consolidated with the Group starting from 1 April 2016.

### Revenue

During the Reporting Period, the Group's sales revenue was approximately RMB35,312 million, up 11.42% from RMB31,692 million for the corresponding period in 2015. The weighted average sales area of the Group's stores was approximately 4,707,000 sq.m. Revenue per sq.m. was approximately RMB6,470, decreased as compared with RMB7,515 for the corresponding period in 2015. During the Reporting Period, as some of the major stores of the Group were under renovation, sales revenue from the 947 comparable stores was approximately RMB23,572 million, down 9.93% as compared with RMB26,172 million for the corresponding period in 2015.

Proportion of revenue from each product category over total revenue of the Group is as follows:

| | **First half of 2016** | First half of 2015 |
|---|---|---|
| As a percentage of sales revenue: | | |
| AV | **18.69%** | 20.34% |
| Air-conditioner | **17.29%** | 17.94% |
| Refrigerator and washing machine | **19.64%** | 20.31% |
| Telecommunication | **18.40%** | 16.01% |
| Small white appliances | **14.19%** | 13.43% |
| IT | **8.52%** | 8.59% |
| Digital and others | **3.27%** | 3.38% |
| Total | **100%** | 100% |

### Cost of sales and gross profit

Cost of sales for the Group was approximately RMB30,541 million in the Reporting Period, accounting for 86.49% of the total sales revenue, as compared with 85.13% for the corresponding period in 2015. The Group's gross profit was approximately RMB4,771 million, up 1.25% as compared with RMB4,712 million for the corresponding period last year. Gross profit margin was approximately 13.51%, decreased by 1.36 percentage points as compared with 14.87% for the corresponding period last year.

The gross profit margin of each product category of the Group is as follows:

| | **First half of 2016** | First half of 2015 |
|---|---|---|
| AV | **14.01%** | 15.07% |
| Air-conditioner | **15.30%** | 16.55% |
| Refrigerator and washing machine | **14.81%** | 16.44% |
| Telecommunication | **10.56%** | 11.90% |
| Small white appliances | **17.19%** | 18.39% |
| IT | **7.56%** | 8.80% |
| Digital and others | **9.49%** | 10.83% |
| Total | **13.51%** | 14.87% |

### Other income and gain

During the Reporting Period, the Group recorded other income and gain of approximately RMB1,009 million, representing an increase of 12.24% as compared with RMB899 million for the corresponding period in 2015.

Summary of other income and gain:

| | **First half of 2016** | First half of 2015 |
|---|---|---|
| As a percentage of sales revenue: | | |
| Income from suppliers, net | **0.53%** | 0.58% |
| Management and purchasing service fees from the Target Group | **0.09%** | 0.51% |
| Income from products installation | **0.24%** | 0.24% |
| Income from extended warranties | **0.55%** | 0.40% |
| Gross rental income | **0.47%** | 0.46% |
| Government grants | **0.12%** | 0.09% |
| Other income from telecommunication service providers | **0.23%** | 0.30% |
| Others | **0.63%** | 0.26% |
| Total | **2.86%** | 2.84% |

### Consolidated gross profit margin

The consolidated gross profit margin was lowered as a result of the continuing high-speed growth in the e-commerce business and the transformation and renovation of the stores in the first-tier market during the Reporting Period, the Group's consolidated gross profit margin was approximately 16.37%, decreased by 1.33 percentage points as compared with 17.70% for the corresponding period in 2015.

### Operating expenses

During the Reporting Period, the Group's total operating expenses (comprised of selling and distribution expenses, administrative expenses and other expenses) were approximately RMB5,752 million, accounting for 16.29% of total sales revenue, up 0.78 percentage point as compared with 15.51% for the corresponding period in 2015. As some of the major stores were under renovation, sales revenue from these stores did not achieve their normal level while the expenses were somewhat fixed, resulting in relatively higher operating expenses ratio.

Summary of operating expenses:

| | **First half of 2016** | First half of 2015 |
|---|---|---|
| As a percentage of sales revenue: | | |
| Selling and distribution expenses | **12.73%** | 12.02% |
| Administrative expenses | **2.44%** | 2.50% |
| Other expenses | **1.12%** | 0.99% |
| Total | **16.29%** | 15.51% |

### Selling and distribution expenses

During the Reporting Period, the Group's total selling and distribution expenses amounted to approximately RMB4,495 million. The percentage over sales revenue was 12.73%, up 0.71 percentage point as compared with 12.02% for the corresponding period in 2015. The increase in selling and distribution expenses ratio was mainly due to the rental expenses as a percentage of sales revenue increased by 0.16 percentage point from 5.25% in the corresponding period last year to 5.41% and the staff costs increased by 0.45 percentage point from 2.84% in the corresponding period last year to 3.29%. The Group's selling and distribution expenses ratio remained at a relatively stable level.

Summary of selling and distribution expenses:

| | **First half of 2016** | First half of 2015 |
|---|---|---|
| As a percentage of sales revenue: | | |
| Rental | **5.41%** | 5.25% |
| Salaries | **3.29%** | 2.84% |
| Utility charges | **0.76%** | 0.81% |
| Advertising expenses | **1.19%** | 1.25% |
| Delivery expenses | **0.72%** | 0.69% |
| Others | **1.36%** | 1.18% |
| Total | **12.73%** | 12.02% |

## Administrative expenses

During the Reporting Period, administrative expenses of the Group were approximately RMB861 million, increased by 8.71% as compared with RMB792 million for the corresponding period last year. The proportion over sales revenue was 2.44%, down 0.06 percentage point as compared with 2.50% for the corresponding period in 2015. The Group has always strive to strengthen its control over administrative expenses in order to maintain its expenses ratio at a relatively low level in the industry.

## Other expenses

During the Reporting Period, other expenses of the Group mainly comprised, among others, business tax, bank charges and loss on equity investments at fair value through profit or loss, which increased from RMB315 million for the corresponding period in 2015 to approximately RMB397 million. The increase was mainly contributed by the increase in loss on equity investments from RMB24 million in the corresponding period last year to approximately RMB122 million. The other expense over revenue ratio was 1.12%, up 0.13 percentage point as compared with 0.99% for the corresponding period in 2015.

### Profit before finance (cost)/income

As a result of the decrease in consolidated gross profit margin and increase in the operating expenses ratio during the Reporting Period, the Group's profit before finance (cost)/income was approximately RMB28 million, decreased by 95.97% as compared with RMB694 million for the corresponding period in 2015.

### Net finance income

During the Reporting Period, the Group's net finance income was approximately RMB37 million, decreased by 65.09% as compared with RMB106 million in the first half of 2015, mainly due to the increase in the finance costs. The increase in the finance costs from RMB27 million in the corresponding period last year to approximately RMB105 million is mainly due to the increase in interest expenses amounted to RMB80 million in relation to the issue of corporate bonds by the Group with aggregate nominal value of RMB5,000 million during the Reporting Period.

### Profit before tax

During the Reporting Period, the Group's profit before tax was approximately RMB64 million, a decrease of 92.01% as compared with RMB801 million for the corresponding period in 2015. Profit margin before tax was 0.18%, as compared with 2.53% for the corresponding period in 2015.

### Income tax expense

During the Reporting Period, as a result of decrease in profit before tax, the Group's income tax expense decreased from RMB276 million for the corresponding period in 2015 to approximately RMB105 million. The management of the Company considers that the effective tax rate applied to the Group for the Reporting Period was reasonable.

### Profit for the period and earnings per share attributable to owners of the parent

During the Reporting Period, the Group's profit attributable to owners of the parent decreased by 81.95% from RMB687 million for the corresponding period last year to approximately RMB124 million.

Basic earnings per share attributable to ordinary equity holders of the parent was RMB0.6 fen, as compared with RMB4.1 fen for the corresponding period of last year.

### Cash and cash equivalents

As at the end of the Reporting Period, cash and cash equivalents held by the Group were approximately RMB11,326 million, representing an increase of 52.27% as compared with RMB7,438 million as at the end of 2015. The increase in cash and cash equivalents was due to, among others, the net cash flows from operating activities amounted to approximately RMB2,126 million as well as the issue of the corporate bonds with aggregate nominal value of RMB5,000 million during the Reporting Period.

## Inventories

As at the end of the Reporting Period, the Group's inventories amounted to approximately RMB11,341 million, up 11.45% as compared with RMB10,176 million at the end of 2015. Inventory turnover days decreased by 5 days from 69 days in the first half of 2015 to approximately 64 days during the Reporting Period.

## Prepayments, deposits and other receivables

As at the end of the Reporting Period, prepayments, deposits and other receivables of the Group amounted to approximately RMB4,727 million, up 11.35% from RMB4,245 million as at the end of 2015.

## Trade and bills payables

As at the end of the Reporting Period, trade and bills payables of the Group amounted to approximately RMB24,103 million, up 24.94% from RMB19,291 million as at the end of 2015. Turnover days of trade and bills payables were approximately 129 days during the reporting period, decreased by 9 days as compared with 138 days for the corresponding period in 2015.

## Capital expenditure

During the Reporting Period, capital expenditure incurred by the Group amounted to approximately RMB367 million, representing a 26.12% increase as compared with RMB291 million for the first half in 2015. The capital expenditure during the period was mainly used for opening of new stores and remodelling of stores by the Group.

## Cash flows

During the Reporting Period, with the continuing improvement in its operational efficiency, the Group's net cash flows generated from operating activities amounted to approximately RMB2,126 million, as compared with RMB1,761 million for the corresponding period last year.

With the inclusion of net proceeds from the acquisition of the Target Group amounted to approximately RMB696 million, net cash flows from investing activities amounted to approximately RMB182 million, as compared with net cash flows of RMB153 million in the first half of 2015.

As the result of the corporate bonds issued and repayment of bank loans during the Reporting Period, net cash flows from financing activities amounted to approximately RMB1,569 million, as compared with RMB9 million in the first half of 2015.

## Interim dividend and dividend policy

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

Currently, the Board anticipates that the dividend payout ratio will be maintained at approximately 40% of the Group's distributable profit for the relevant financial year. However, the actual payout ratio in a financial year will be determined at the Board's full discretion, after taking into account, among other considerations, the working capital requirement of the Group, business environment, availability of investment and acquisition opportunities.

## Contingent liabilities and capital commitments

As at the end of the Reporting Period, the Group had no material contingent liabilities. The Group had capital commitments of approximately RMB62 million.

## Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. The Group has adopted effective measures to reduce its foreign exchange risks. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

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

## Financial resources and gearing ratio

During the Reporting Period, the Group's working capital, capital expenditure and cash for investments were mainly funded from cash on hand, cash generated from operations, interest-bearing bank loans and corporate bonds.

As at 30 June 2016, the total borrowings of the Group were the interest-bearing bank loans and the corporate bonds.

The interest-bearing bank loans comprised bank loans of USD183 million in aggregate bearing interest at floating rates, bank loan of JPY50 million and bank loan of RMB300 million bearing interests at fixed rates. The interest-bearing bank loans were repayable within 2 years.

The corporate bonds with aggregate nominal value of RMB5,000 million were issued at fixed coupon rates ranged from 4.00% to 4.50% per annum, with duration of 6 years. The Group shall be entitled to adjust the coupon rates and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the third year.

The Group's financing activities continued to be supported by its bankers.

As at 30 June 2016, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to approximately RMB6,414 million over total equity amounting to approximately RMB21,468 million, increased from 5.82% as at 31 December 2015 to 29.88%.

### Charge on group assets

As at 30 June 2016, the Group's bills payable and interest-bearing bank loans were secured by certain of the Group's time deposits amounting to approximately RMB4,870 million, certain inventories with a carrying value of approximately RMB566 million and certain owner-occupied properties and investment properties with a carrying value of approximately RMB1,593 million. The Group's bills payables and interest-bearing bank loans amounted to approximately RMB17,651 million in total.

## Outlook and Prospects

### Building up a Total Retail ecosystem

Rolling out of Total Retail ecosystem strategy revealed its strategic imperativeness for the Group to cope with rapidly changing competitive landscape and consumer behavior in the retail market. The Group continued to grow its GMV and customer traffics attracted by building themed retailing platforms with focuses on providing better customer experience and leveraging its advantages in supply chain management. Looking ahead, the Group remains committed to pushing forward its strategy transformation steadily and forging its value proposition of becoming an online and offline integrated solution provider for households.

- **Building new scenario ecosystem with new traffic attraction initiatives**

  Based on six scenario initiatives, namely "Leisure & Entertainment, Lifestyle & Gourmet, Home Furnishing & Design, Internet-TV, Internet of Things & Smart Devices, and E-commerce", the Group remains focusing on building a Total Retail ecosystem which is designed to satisfy customer needs of improving quality of life. With carrying out initiatives in five different areas, including entertainment, kitchen & lifestyle, online game tournaments, internet-TV, and home furnishing & design, the Group is intending to organically merge its online and offline traffic attraction portals, cover wilder range of retail consumers while cultivating consumption patterns of younger generation consumers, which eventually drive sales growth with growing customer traffics.

  By vertically partnering with high quality content providers and manufacturers in the value chain, as an all-channel distributor, the Group will push forward the launch of internet-TV system strategy and seize the opportunity to build its presence in "living room economy", which is crucial to attract younger generation of consumers.

Internet of things and smart devices are channels to extent product sales to after-sales services market. The Group's "Smart Cloud Platform" build upon these channels is aimed to enable retailers to better understand consumption patterns and encourage re-purchases in order to cover full life cycle of customer consumptions.

By leveraging its open supply chain platforms and complete process controllable IT software systems, the Group will further integrate prime resources of its ecosystem partners, both online and offline. The Group also strengthens its value proposition as an integrated home solution provider by partnering and resources sharing with different type of household retailers, including Amazon and Feiniu.com. These partnerships also attract consumer traffics by extending customer coverage and supplementing low frequency products with high frequency ones.

- **Establishing strong Linkage with full life cycle and tailored services**

  Leveraged on the Group's "Smart Cloud" platform together with initiative such as e-warranty cards, "GOME House Manager" (an O2O resources sharing platform) will be able to provide full range of household services with a focus of home appliances. This important portal is aimed to enable the Group to create new services markets and further strengthen its market leading position as a full range integrated after-sales services provider, with higher customer loyalty and stronger customer bonding.

  In addition, the Group also connects its potential customers with GOME TOGO shops, which supplements merchandise distribution with brand building through word of mouth marketing.

- **Advantages of integrated supply chain established higher competition barriers for retailers**

  The Group maintains its competitive advantages in retail industry by adopting flexible and innovative merchandize procurement models and the operation of differentiated products to control pricing. The Group also forges a better cloud warehouse model on the top of extending its distribution channels to lower tier markets. The logistic services alliance built upon open supply chain and resources sharing with Haier and other ecosystem partners enables the Group to optimize backbone logistic lines, storage capacity and overall operation efficiency. In addition to importing overseas supply chain resources to domestic market, the Group also proactively seeks opportunities to expand its presence by exporting its supply chain resources to global markets.

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To the members of
**GOME Electrical Appliances Holding Limited**
*(Incorporated in Bermuda with limited liability)*

## Introduction

We have reviewed the interim financial information of GOME Electrical Appliances Holding Limited set out on pages 24 to 67 which comprises the condensed consolidated statement of financial position as at 30 June 2016 and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial 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
29 August 2016

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended 30 June 2016

| | Notes | For the six-month period ended 30 June 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | **35,312,090** | 31,692,485 |
| Cost of sales | 7 | **(30,541,347)** | (26,980,149) |
| **Gross profit** | | **4,770,743** | 4,712,336 |
| Other income and gain | 6 | **1,008,849** | 899,059 |
| Selling and distribution expenses | | **(4,494,636)** | (3,810,460) |
| Administrative expenses | | **(860,701)** | (791,665) |
| Other expenses | | **(396,690)** | (314,940) |
| **Profit before finance (cost)/income** | | **27,565** | 694,330 |
| Finance costs | 8 | **(105,498)** | (26,628) |
| Finance income | 8 | **142,180** | 132,920 |
| **PROFIT BEFORE TAX** | 7 | **64,247** | 800,622 |
| Income tax expense | 9 | **(104,905)** | (275,614) |
| **(LOSS)/PROFIT FOR THE PERIOD** | | **(40,658)** | 525,008 |
| Attributable to: | | | |
| Owners of the parent | | **123,859** | 686,923 |
| Non-controlling interests | | **(164,517)** | (161,915) |
| | | **(40,658)** | 525,008 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 10 | | |
| – Basic and diluted | | **RMB0.6 fen** | RMB4.1 fen |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2016

| | Note | For the six-month period ended 30 June 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
|---|---|---|---|
| **(LOSS)/PROFIT FOR THE PERIOD** | | **(40,658)** | 525,008 |
| **OTHER COMPREHENSIVE (LOSS)/INCOME** | | | |
| Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods: | | | |
| Changes in fair value of other investments | *12* | **(94,771)** | 259,470 |
| Exchange differences on translation of foreign operations | | **7,063** | 14,627 |
| Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods | | **(87,708)** | 274,097 |
| **OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX** | | **(87,708)** | 274,097 |
| **TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD** | | **(128,366)** | 799,105 |
| Attributable to: | | | |
| Owners of the parent | | **36,151** | 961,020 |
| Non-controlling interests | | **(164,517)** | (161,915) |
| | | **(128,366)** | 799,105 |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | Notes | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | *11* | **6,460,287** | 4,393,245 |
| Investment properties | | **599,832** | 599,832 |
| Goodwill | | **14,132,986** | 7,145,117 |
| Other intangible assets | | **501,209** | 242,363 |
| Other investments | *12* | **500,242** | 595,013 |
| Lease prepayments and deposits | | **1,483,316** | 1,423,833 |
| Deferred tax assets | | **131,854** | 40,140 |
| Total non-current assets | | **23,809,726** | 14,439,543 |
| **CURRENT ASSETS** | | | |
| Inventories | *13* | **11,340,671** | 10,176,004 |
| Trade and bills receivables | *14* | **247,907** | 189,439 |
| Prepayments, deposits and other receivables | *15* | **4,726,672** | 4,245,343 |
| Due from related companies | *16* | **89,852** | 189,694 |
| Equity investments at fair value through profit or loss | *17* | **1,029,201** | 1,029,142 |
| Pledged deposits | *18* | **4,870,143** | 3,880,903 |
| Cash and cash equivalents | *18* | **11,326,101** | 7,437,717 |
| Total current assets | | **33,630,547** | 27,148,242 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *19* | **24,103,379** | 19,290,931 |
| Customers' deposits, other payables and accruals | | **3,540,124** | 2,591,986 |
| Interest-bearing bank loans | *20* | **502,187** | 971,512 |
| Due to related companies | *16* | **455,117** | 1,028,149 |
| Tax payable | | **890,178** | 857,222 |
| Total current liabilities | | **29,490,985** | 24,739,800 |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | Notes | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|---|
| **NET CURRENT ASSETS** | | **4,139,562** | 2,408,442 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **27,949,288** | 16,847,985 |
| **NON-CURRENT LIABILITIES** | | | |
| Bonds payable | *21* | **4,901,052** | – |
| Derivative financial instruments | *22* | **117,731** | – |
| Interest-bearing bank loans | *20* | **1,011,238** | – |
| Deferred tax liabilities | | **451,241** | 159,623 |
| Total non-current liabilities | | **6,481,262** | 159,623 |
| Net assets | | **21,468,026** | 16,688,362 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *23* | **531,562** | 423,268 |
| Reserves | | **22,235,068** | 17,402,681 |
| | | **22,766,630** | 17,825,949 |
| **Non-controlling interests** | | **(1,298,604)** | (1,137,587) |
| Total equity | | **21,468,026** | 16,688,362 |

**Zhang Da Zhong**
*Director*

**Zou Xiao Chun**
*Director*

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2016

| | | Attributable to owners 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 |
| **Balance at 1 January 2016** | | 423,268 | 9,548,118 | 657 | (618,172) | 163,383 | 117,468 | 336,382 | 1,632,156 | (147,580) | 6,370,269 | 17,825,949 | (1,137,587) | 16,688,362 |
| Profit/(loss) for the period | | - | - | - | - | - | - | - | - | - | 123,859 | 123,859 | (164,517) | (40,658) |
| Other comprehensive income/(loss) for the period: | | | | | | | | | | | | | | |
| Changes in fair value of other investments | 12 | - | - | - | - | - | - | (94,771) | - | - | - | (94,771) | - | (94,771) |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | - | 7,063 | - | 7,063 | - | 7,063 |
| Total comprehensive income/(loss) for the period | | - | - | - | - | - | - | (94,771) | - | 7,063 | 123,859 | 36,151 | (164,517) | (128,366) |
| Establishment of a subsidiary | | - | - | - | - | - | - | - | - | - | - | - | 3,500 | 3,500 |
| Issue of shares | 23 | 114,572 | 5,018,248 | - | - | - | - | - | - | - | - | 5,132,820 | - | 5,132,820 |
| Shares repurchased | 23 | (6,278) | (222,012) | - | - | - | - | - | - | - | - | (228,290) | - | (228,290) |
| **At 30 June 2016 (unaudited)** | | 531,562 | 14,344,354* | 657* | (618,172)* | 163,383* | 117,468* | 241,611* | 1,632,156* | (140,517)* | 6,494,128* | 22,766,630 | (1,298,604) | 21,468,026 |

* As at 30 June 2016, these reserve accounts comprised the consolidated reserves of RMB22,235,068,000 (31 December 2015: RMB17,402,681,000) in the interim condensed consolidated statement of financial position.

\# The asset revaluation reserve arose from changes in use from owner-occupied properties to investment properties carried at fair value.

| | | Attributable to owners 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 |
| **Balance at 1 January 2015** | | 423,221 | 9,543,093 | 657 | (618,172) | 163,036 | 117,468 | 123,390 | 1,505,592 | (150,872) | 5,798,503 | 16,905,916 | (871,398) | 16,034,518 |
| Profit for the period | | - | - | - | - | - | - | - | - | - | 686,923 | 686,923 | (161,915) | 525,008 |
| Other comprehensive income/(loss) for the period: | | | | | | | | | | | | | | |
| Changes in fair value of other investments | 12 | - | - | - | - | - | - | 259,470 | - | - | - | 259,470 | - | 259,470 |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | - | 14,627 | - | 14,627 | - | 14,627 |
| Total comprehensive income/(loss) for the period | | - | - | - | - | - | - | 259,470 | - | 14,627 | 686,923 | 961,020 | (161,915) | 799,105 |
| Exercise of share options | 24 | 47 | 5,024 | - | - | (1,555) | - | - | - | - | - | 3,516 | - | 3,516 |
| Equity-settled share option arrangements | 24 | - | - | - | - | 1,902 | - | - | - | - | - | 1,902 | - | 1,902 |
| Wind-up of subsidiaries | | - | - | - | - | - | - | - | (2,316) | - | 2,316 | - | - | - |
| **At 30 June 2015 (unaudited)** | | 423,268 | 9,548,117* | 657* | (618,172)* | 163,383* | 117,468* | 382,860* | 1,503,276* | (136,245)* | 6,487,742* | 17,872,354 | (1,033,313) | 16,839,041 |

\# Retained earnings have been adjusted for the proposed 2014 final dividend in accordance with the current period's presentation.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2016

| | Notes | For the six-month period ended 30 June 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **64,247** | 800,622 |
| Adjustments for: | | | |
| Finance income | *8* | **(142,180)** | (132,920) |
| Finance costs | *8* | **105,498** | 26,628 |
| Fair value gain on derivative financial instruments | *6* | **(109,121)** | – |
| Loss on equity investments at fair value through profit or loss | *7* | **122,362** | 23,691 |
| Loss on disposal of items of property and equipment | *7* | **2,218** | 7,958 |
| Impairment provision/(reversal of impairment provision) for items of property and equipment | *7* | **2,342** | (3,052) |
| Depreciation | *7* | **371,664** | 287,545 |
| Amortisation of intangible assets | *7* | **16,937** | 11,719 |
| Equity-settled share option expense | *24* | **–** | 1,902 |
| | | **433,967** | 1,024,093 |
| Decrease in inventories | | **1,656,957** | 1,141,053 |
| Increase in trade and bills receivables | | **(13,673)** | (149,547) |
| Decrease/(increase) in lease prepayments and deposits | | **40,773** | (57,812) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **294,148** | (31,218) |
| Decrease/(increase) in amounts due from related companies | | **1,721,164** | (30,975) |
| Decrease in pledged deposits for bills payable | *18* | **80,096** | 45,273 |
| Decrease in trade and bills payables | | **(410,356)** | (505,238) |
| Increase in customers' deposits, other payables and accruals | | **80,966** | 156,671 |
| (Decrease)/increase in amounts due to related companies | | **(1,473,415)** | 246,103 |
| Cash generated from operations | | **2,410,627** | 1,838,403 |
| Interest received | | **144,560** | 152,730 |
| Income tax paid | | **(429,500)** | (229,934) |
| Net cash flows from operating activities | | **2,125,687** | 1,761,199 |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2016

| | Notes | For the six-month period ended 30 June 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
|---|---|---|---|
| Net cash flows from operating activities | | **2,125,687** | 1,761,199 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property and equipment | | **(366,976)** | (290,720) |
| Purchases of equity investments at fair value through profit or loss | | **(122,421)** | (1,000,000) |
| Net proceeds from acquisition of the Target Group | *5* | **696,008** | – |
| Additions to other intangible assets | | **(46,043)** | – |
| Additions to lease prepayment and deposits | | **(36,631)** | – |
| Refund from Huishang Bank Corporation Limited for share subscription | | **–** | 1,411,973 |
| Proceeds from disposal of items of property and equipment | | **57,697** | 31,490 |
| Net cash flows from investing activities | | **181,634** | 152,743 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repurchase of shares | | **(228,290)** | – |
| Capital injection from a non-controlling shareholder | | **3,500** | – |
| Net proceeds from issuance of corporate bonds | *21* | **4,894,768** | – |
| New bank loans | | **1,200,668** | – |
| Decrease in pledged deposits for bank loans | | **–** | 1,944,127 |
| Repayment of bank loans | | **(4,274,844)** | (1,906,356) |
| Exercise of share options | | **–** | 3,516 |
| Interest paid | | **(27,090)** | (32,716) |
| Net cash flows from financing activities | | **1,568,712** | 8,571 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **3,876,033** | 1,922,513 |
| Cash and cash equivalents at 1 January | | **7,437,717** | 8,794,112 |
| Effect of foreign exchange rate changes, net | | **12,351** | (647) |
| **CASH AND CASH EQUIVALENTS AT 30 JUNE** | | **11,326,101** | 10,715,978 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | *18* | **10,667,955** | 9,109,474 |
| Non-pledged time deposits with original maturity of less than three months when acquired | *18* | **658,146** | 1,606,504 |
| | | **11,326,101** | 10,715,978 |

## 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, consumer electronic products retail stores and electronic products on-line sales in the People's Republic of China (the "PRC").

## 2. BASIS OF PREPARATION

The unaudited interim financial information for the six-month period ended 30 June 2016 (the "Interim Financial Information") has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB").

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2015.

## 3. CHANGES IN THE GROUP'S 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 2015, except for the adoption of new amendments effective as of 1 January 2016.

The Group applied the following new amendments for the first time in 2016. However, they do not impact the interim condensed consolidated financial statements of the Group.

## 3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES *(continued)*

The nature and the impact of each new amendment are described below:

### IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

### *Joint Arrangements: Accounting for Acquisitions of Interests* (Amendments to IFRS 11)

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

## 3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES *(continued)*

### ***Clarification of Acceptable Methods of Depreciation and Amortisation*** **(Amendments to IAS 16 and IAS 38)**

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

### ***Agriculture: Bearer Plants*** **(Amendments to IAS 16 and IAS 41)**

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

## 3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES *(continued)*

### *Equity Method in Separate Financial Statements* (Amendments to IAS 27)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group does not elect to change to the equity method in the separate financial statements.

### *Annual Improvements 2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

### IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

## 3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES *(continued)*

### *Annual Improvements 2012-2014 Cycle (continued)*

### IFRS 7 *Financial Instruments: Disclosures*

**Servicing contracts**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

**Applicability of the amendments to IFRS 7 to condensed interim financial statements**

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

### IAS 19 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

## 3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES *(continued)*

***Annual Improvements 2012-2014 Cycle*** *(continued)*

**IAS 34 *Interim Financial Reporting***

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

***Disclosure Initiative* (Amendments to IAS 1)**

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1
- that specific line items in the statements of profit or loss and other comprehensive income and the statement of financial position may be disaggregated
- that entities have flexibility as to the order in which they present the notes to financial statements
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

## 3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES *(continued)*

***Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28)**

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

## 4. OPERATING SEGMENT INFORMATION

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

Management monitors the results of the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that bank interest income, unallocated income, finance costs, loss on equity investments at fair value through profit or loss, fair value gain on derivative financial instruments and corporate and other unallocated expenses are excluded from such measurement.

## 4. OPERATING SEGMENT INFORMATION *(continued)*

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

Segment liabilities exclude interest-bearing bank loans, tax payable, bonds payable, derivative financial instruments and deferred tax liabilities as these liabilities are managed on a group basis.

| | **For the six-month period ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| **Segment revenue** | | |
| Sales to external customers | **35,312,090** | 31,692,485 |
| **Segment results** | **90,575** | 771,679 |
| *Reconciliation* | | |
| Bank interest income | **142,180** | 132,920 |
| Unallocated income | **381** | 344 |
| Finance costs | **(105,498)** | (26,628) |
| Loss on equity investments at fair value through profit or loss | **(122,362)** | (23,691) |
| Fair value gain on derivative financial instruments | **109,121** | – |
| Corporate and other unallocated expenses | **(50,150)** | (54,002) |
| Profit before tax | **64,247** | 800,622 |

## 4. OPERATING SEGMENT INFORMATION *(continued)*

| | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| **Segment assets** | **39,582,732** | 28,604,870 |
| *Reconciliation* | | |
| Corporate and other unallocated assets | **17,857,541** | 12,982,915 |
| **Total assets** | **57,440,273** | 41,587,785 |
| **Segment liabilities** | **28,098,620** | 22,911,066 |
| *Reconciliation* | | |
| Corporate and other unallocated liabilities | **7,873,627** | 1,988,357 |
| **Total liabilities** | **35,972,247** | 24,899,423 |

| | For the six-month period ended 30 June | |
|---|---|---|
| | 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
| **Other segment information** | | |
| Depreciation and amortisation | **388,601** | 299,264 |
| Capital expenditure* | **366,976** | 290,720 |

* Capital expenditure consists of additions to property and equipment.

## 5. BUSINESS COMBINATION

On 31 March 2016, the Group acquired 100% of the equity interests of Artway Development Ltd. and its subsidiaries (the "Target Group"), an unlisted group principally engaged in the retail sale of electrical appliances and consumer electronic products under the trademark "GOME Electrical Appliances" and related operations mainly in cities other than the designated cities of the PRC in which the Group already operates. The purchase consideration for the acquisition was made in the form of HK$1 billion of cash, issuance of 5.5 billion shares of the Company at market price of HK$1.12 per share at date of acquisition and issuance of 2.5 billion warrant of the Company (note 22) at fair value of RMB227 million at date of acquisition, which are exercisable into underlying shares of the Company at the initial exercise price of HK$2.15 per share.

The fair values of the identifiable assets and liabilities of the Target Group as at the date of acquisition were:

| | **Fair value recognised on acquisition RMB'000** |
|---|---|
| Property and equipment | **2,133,987** |
| Other intangible assets | **229,740** |
| Lease prepayments and deposits | **63,625** |
| Deferred tax assets | **12,446** |
| Inventories | **2,821,624** |
| Trade and bills receivables | **44,795** |
| Prepayments, deposits and other receivables | **777,857** |
| Due from related companies | **1,621,322** |
| Pledged deposits | **1,069,336** |
| Cash and cash equivalents | **1,529,258** |
| Trade and bills payables | **(5,222,804)** |
| Customers' deposits, other payables and accruals | **(795,048)** |
| Interest-bearing bank loans | **(3,610,801)** |
| Due to related companies | **(900,383)** |
| Tax payable | **(272,324)** |
| Deferred tax liabilities | **(297,577)** |
| Total identifiable net liabilities acquired at fair value | **(794,947)** |
| Goodwill arising on acquisition | **6,987,869** |
| Satisfied by: | |
| Cash | **833,250** |
| Issue of the Company's warrant | **226,852** |
| Issue of the Company's shares | **5,132,820** |

The Group incurred transaction costs of RMB21,885,000 for this acquisition. These transaction costs are included in the interim condensed consolidated statement of profit or loss.

Since the acquisition on 31 March 2016, the Target Group contributed revenue of RMB4,676 million and profit for the period of RMB121 million to the Group for the six-month period ended 30 June 2016.

Had the business combination be taken place at the beginning of the year, the revenue and the profit for the period of the Group would have been RMB38,935 million and RMB9 million, respectively.

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition. None of the recognised goodwill is expected to be deductible for income tax purposes.

## 6. REVENUE, OTHER INCOME AND GAIN

Revenue 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 follows:

| | Notes | For the six-month period ended 30 June 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of electrical appliances and consumer electronic products | | **35,312,090** | 31,692,485 |
| **Other income** | | | |
| Income from suppliers, net | | **186,627** | 184,092 |
| Management and purchasing service fees from the Target Group | *(i)* | **31,656** | 160,897 |
| Income from products installation | | **84,549** | 75,640 |
| Gross rental income | | **165,289** | 145,419 |
| Government grants | *(ii)* | **40,727** | 26,677 |
| Other service fee income | | **193,820** | 127,658 |
| Other income from telecommunication service providers | | **79,501** | 95,396 |
| Commission income from services provided on online platform | | **54,418** | 36,589 |
| Others | | **63,141** | 46,691 |
| | | **899,728** | 899,059 |
| **Gain** | | | |
| Fair value gain on derivative financial instruments | | **109,121** | – |
| | | **1,008,849** | 899,059 |

*Notes:*

(i) Management and purchasing service fees from the Target Group represented the transactions between the Group and the Target Group for the period from 1 January 2016 to 31 March 2016.

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

## 7. PROFIT BEFORE TAX

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

| | Notes | For the six-month period ended 30 June 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **30,541,347** | 26,980,149 |
| Depreciation | | **371,664** | 287,545 |
| Amortisation of intangible assets* | | **16,937** | 11,719 |
| Loss on disposal of items of property and equipment | | **2,218** | 7,958 |
| Loss on equity investments at fair value through profit or loss | | **122,362** | 23,691 |
| Fair value gain on derivative financial instruments | 6 | **(109,121)** | – |
| Minimum lease payments under operating leases in respect of land and buildings | | **2,033,981** | 1,781,137 |
| Gross rental income | 6 | **(165,289)** | (145,419) |
| Foreign exchange differences, net | | **3,354** | 32,028 |
| Impairment provision/(reversal of impairment provision) for items of property and equipment | | **2,342** | (3,052) |
| Staff costs excluding directors' and chief executive's remuneration: | | | |
| Wages, salaries and bonuses | | **1,210,728** | 995,957 |
| Pension scheme contributions** | | **284,958** | 235,123 |
| Social welfare and other costs | | **31,557** | 37,165 |
| Equity-settled share option expense | | **–** | 1,690 |
| | | **1,527,243** | 1,269,935 |

* The amortisation of intangible assets for the period is included in "Administrative expenses" on the face of the interim condensed consolidated statement of profit or loss.

** At 30 June 2016, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (31 December 2015: Nil).

## 8. FINANCE (COSTS)/INCOME

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

| | For the six-month period ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Finance costs: | | |
| Interest expenses on bank loans | **(25,186)** | (26,628) |
| Interest expense on bonds payable | **(80,312)** | – |
| | **(105,498)** | (26,628) |
| Finance income: | | |
| Bank interest income | **142,180** | 132,920 |

## 9. INCOME TAX EXPENSE

An analysis of the provision for tax is as follows:

| | For the six-month period ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Current income tax – PRC | **190,132** | 275,633 |
| Deferred income tax | **(85,227)** | (19) |
| Total tax charge for the period | **104,905** | 275,614 |

The Group is subject to income tax on an entity basis on profits 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.

## 9. INCOME TAX EXPENSE *(continued)*

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

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month period ended 30 June 2015: 25%) on their respective taxable income. During the current period, 47 entities (six-month period ended 30 June 2015: 25 entities) of the Group obtained approvals from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates.

The Group realised tax benefits during the period through applying the preferential corporate income tax rates. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to assessment by the relevant PRC tax authorities.

No provision for Hong Kong profits tax has been made for the six-month periods ended 30 June 2016 and 2015, as the Group had no assessable profits arising in Hong Kong for each of the periods.

## 10. 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 19,727,921,000 in issue during the period (six-month period ended 30 June 2015: 16,959,826,000).

For the six-month periods ended 30 June 2016 and 30 June 2015, there were no potentially dilutive ordinary shares.

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

| | For the six-month period ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations | **123,859** | 686,923 |

| | Number of shares for the six-month period ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | **'000** | '000 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations | **19,727,921** | 16,959,826 |

## 11. PROPERTY AND EQUIPMENT

During the six-month period ended 30 June 2016, the Group acquired items of property and equipment at a total cost of RMB367.0 million (six-month period ended 30 June 2015: RMB290.7 million). The property and equipment acquired at fair value from business combination (note 5) on 31 March 2016 was RMB2,134.0 million. Items of property and equipment with a net carrying amount of RMB59.9 million (six-month period ended 30 June 2015: RMB39.4 million) were disposed of during the six-month period ended 30 June 2016.

Certain of the buildings of the Group in the PRC were pledged as security for bills payable (note 19) and interest-bearing bank loans (note 20) of the Group as at 30 June 2016. The aggregate carrying value of the pledged buildings of the Group as at 30 June 2016 amounted to RMB1,112,292,000 (31 December 2015: RMB1,164,024,000).

## 12. OTHER INVESTMENTS

| | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Listed investments, at fair value | **500,242** | 595,013 |

The balance as at 30 June 2016 represented the fair value of the Group's investments in 39,987,400 shares, representing approximately 15.84% of the outstanding issued shares of 三聯商社股份有限公司 ("Sanlian Commercial Co., Ltd." or "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 2016 and 31 December 2015. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investments are 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 statement of profit or loss.

Of the seven directors of Sanlian, two were nominated by the Group as at 30 June 2016 (31 December 2015: two). With reference to Sanlian's memorandum and articles of association and by taking into account the current shareholding structure of Sanlian, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to Sanlian and thus the Group does not have control or significant influence over Sanlian.

## 12. OTHER INVESTMENTS *(continued)*

As at 30 June 2016, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB12.51 (31 December 2015: RMB14.88) per share.

During the six-month period ended 30 June 2016, the loss in respect of the Group's other investments recognised in other comprehensive income amounted to RMB94,771,000 (six-month period ended 30 June 2015: gain of RMB259,470,000).

## 13. INVENTORIES

| | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Merchandise for resale | **11,129,979** | 10,026,078 |
| Consumables | **210,692** | 149,926 |
| | **11,340,671** | 10,176,004 |

As at 30 June 2016, inventories amounting to RMB566 million (31 December 2015: RMB537 million) were pledged as security for the Group's bills payable (note 19).

## 14. TRADE AND BILLS RECEIVABLES

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

An aging 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 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Outstanding balances, aged: | | |
| Within 3 months | **228,904** | 143,538 |
| 3 to 6 months | **16,502** | 38,281 |
| 6 months to 1 year | **2,501** | 7,620 |
| | **247,907** | 189,439 |

## 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Note | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|---|
| Prepayments | | **856,701** | 831,985 |
| Advances to suppliers | | **2,402,624** | 2,432,939 |
| Receivables from Wuhan Yinhe | *(i)* | **166,586** | 166,586 |
| Other deposits and receivables | | **1,272,749** | 785,821 |
| Current portion of prepaid land lease payments | | **28,012** | 28,012 |
| | | **4,726,672** | 4,245,343 |

*Note:*

(i) This amount relates to a deposit for a property purchase from 武漢銀鶴置業有限公司 ("Wuhan Yinhe Property Co., Ltd." or "Wuhan Yinhe") in Wuhan in 2008 for approximately RMB107 million. Wuhan Yinhe had since defaulted and failed to complete the delivery of the property in Wuhan (the "Property") to the Group. The Group has taken legal action against Wuhan Yinhe and the Intermediate People's Court of Huanggang City in Hubei province (the "Court") had ordered Wuhan Yinhe to repay the deposit plus interest and other damages to the Group for an aggregate amount of approximately RMB167 million in 2009 (the "Award").

During the current period, the Court has granted an order for the Property to be transferred to the Group. The Group is required to pay an additional amount which represents the fair valuation of the Property, less the amount of Award owed to the Group and additional compensation and penalty to be borne by Wuhan Yinhe. As at 30 June 2016, the determination of the additional compensation and penalty amounts had not been finalised.

## 16. DUE FROM/DUE TO RELATED COMPANIES

### Due from related companies

| | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Management and purchasing service fee receivables from the Target Group* | – | 43,048 |
| Other receivables from related companies** | 89,852 | 146,646 |
| | 89,852 | 189,694 |

* The balance of 2015 mainly represented the management and purchasing service fees due from the Target Group (note 27(a)(ii)). The aforesaid balance was interest-free, unsecured and had no fixed terms of repayment.

### Due to related companies

| | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Payables to the Target Group | – | 754,058 |
| Payables to related companies** | 455,117 | 274,091 |
| | 455,117 | 1,028,149 |

** These balances were interest-free, unsecured and had no fixed terms of repayment.

## 17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Listed equity investments, at market value | **1,029,201** | 1,029,142 |

During the six-month period ended 30 June 2016, the Group invested RMB122.4 million in stock market. These equity investments were classified as financial assets designated upon initial recognition as at fair value through profit or loss by management and measured at market value. As at the date of approval of Interim Financial Information, the market value of these equity investments was RMB1,114 million.

## 18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Cash and bank balances | **10,667,955** | 6,835,713 |
| Time deposits | **5,528,289** | 4,482,907 |
| | **16,196,244** | 11,318,620 |
| Less: Pledged time deposits for bills payable | **(4,870,143)** | (3,880,903) |
| Cash and cash equivalents | **11,326,101** | 7,437,717 |

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB15,291,606,000 (31 December 2015: RMB11,014,524,000). 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 varies from daily bank deposit rates. Short term deposits of the Group are made for varying periods of between one day to 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.

## 19. TRADE AND BILLS PAYABLES

| | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Trade payables | **7,965,490** | 6,375,469 |
| Bills payable | **16,137,889** | 12,915,462 |
| | **24,103,379** | 19,290,931 |

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

| | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Within 3 months | **16,366,736** | 10,976,395 |
| 3 to 6 months | **7,268,792** | 7,211,206 |
| Over 6 months | **467,851** | 1,103,330 |
| | **24,103,379** | 19,290,931 |

The Group's bills payable above are secured by:

(i) the pledge of certain of the Group's time deposits (note 18);

(ii) the pledge of certain of the Group's inventories (note 13);

(iii) the pledge of certain of the Group's buildings (note 11); and

(iv) the pledge of certain of the Group's investment properties with an aggregate fair value RMB480,672,000 (31 December 2015:RMB 369,986,000).

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

## 20. INTEREST-BEARING BANK LOANS

| | 30 June 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Current: | | |
| Bank loans – secured | **502,187** | 971,512 |
| Non-current: | | |
| Bank loans – secured | **1,011,238** | – |

The bank loans as at 30 June 2016 comprised a bank loan of USD182,500,000 (equivalent to RMB1,210,170, 000) bearing interest at 3-month LIBOR plus 0.7% to 0.9%, a bank loan of JPY50,000,000 (equivalent to RMB3,255,000) bearing fixed interest at 0.53% and a bank loan of RMB300,000,000 bearing fixed interest of 7.5%. Certain of the bank loans are secured by the Group's buildings (note 11) and investment properties.

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

## 21. BONDS PAYABLE

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000 million, RMB300 million and RMB1,700 million on the Shanghai Stock Exchange, of which are repayable on 7 January 2022, 28 January 2022 and 10 May 2022, respectively. The interests are paid on annual basis.

After initial recognition, these bonds are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest expense calculated based on the effective interest rate was RMB80,312,000 which was included in finance costs of the interim condensed consolidated statement of profit or loss.

Movements of the bonds payable are as follows:

| | RMB'000 |
|---|---|
| Nominal value of the bonds issued | 5,000,000 |
| Transaction costs | (105,232) |
| Liabilities at the issuance date | 4,894,768 |
| Interest expenses on the bonds | 80,312 |
| Less: interest to be paid within one year | (74,028) |
| Included under non-current liabilities as at 30 June 2016 | 4,901,052 |

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

On 31 March 2016 (the "Issue Date"), the Company issued 2.5 billion warrant (the "Warrant") as part of the consideration to acquire the Target Group (note 5). Pursuant to the acquisition agreement and the supplemental agreement, the Warrant are exercisable to subscribe for an aggregate of 2.5 billion shares of the Company at an initial exercise price of HK$2.15 per share at any time prior to the second anniversary of the Issue Date. The exercise price of the Warrant is subject to adjustment in accordance with the terms and conditions upon the occurrence of certain events including, among other things, subdivision or consolidation of shares, the making of a free distribution of shares, bonus issue, the declaration of dividend in shares, capital distribution, issuance of options, rights or warrants, and other dilutive events such as issue of new shares.

According to the terms and conditions of the Warrant, it was accounted for as a derivative liability at fair value on initial recognition and subsequent measurement. The fair values of the Warrant on Issue Date and 30 June 2016 were RMB226,852,000 and RMB117,731,000, respectively. The change of fair value of RMB109,121,000 was recognised as a gain for the six-month period ended 30 June 2016.

The Company determined the fair values of the Warrant with reference to the valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), an independent firm of professional qualified valuers by using the Binomial Option Pricing Model and the major inputs into the model are as follows:

| | At the Issue Date | At 30 June 2016 |
|---|---|---|
| Stock price | **HK$1.12** | **HK$0.92** |
| Exercise price | **HK$2.15** | **HK$2.15** |
| Expected volatility *(note a)* | **50.838%** | **53.628%** |
| Dividend yield | **0%** | **0%** |
| Warrant life | **24 months** | **21 months** |
| Risk-free rate *(note b)* | **0.533%** | **0.436%** |

(a) The volatility was determined with reference to the implied volatility of the Group as at the Issue Date and 30 June 2016.

(b) The risk free rate was determined with reference to the risk-free rate of Hong Kong at the Issue Date and 30 June 2016.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

On 1 July 2016, the terms and conditions of the Warrant were amended. The Warrant will be since then settled by exchanging a fixed amount of cash for a fixed number of shares of the Company. Therefore, the carrying amount of the Warrant of RMB117,731,000 was reclassified from derivative liability to equity.

As of the date of approval of Interim Financial Information, no warrant was exercised by the warrant holder.

## 23. ISSUED CAPITAL

| | **30 June 2016 (Unaudited)** | 31 December 2015 (Audited) |
|---|---|---|
| **Shares** | **HK$'000** | HK$'000 |
| Issued and fully paid: | | |
| 22,164,924,422 (31 December 2015: 16,961,573,422) ordinary shares of HK$0.025 each | **554,123** | 424,040 |

A summary of movements in the Company's share capital is as follows:

| **Shares** | **Number of shares '000** | **HK$'000** | **Equivalent to RMB'000** |
|---|---|---|---|
| At 1 January 2016 | **16,961,573** | **424,040** | **423,268** |
| Issue of shares | **5,500,000** | **137,500** | **114,572** |
| Shares repurchased | **(296,649)** | **(7,417)** | **(6,278)** |
| At 30 June 2016 | **22,164,924** | **554,123** | **531,562** |

## 24. SHARE OPTION SCHEME

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

| | **Six-month period ended 30 June 2016** | | Six-month period ended 30 June 2015 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | **1.90** | **91,077** | 1.90 | 96,091 |
| Exercised during the period | **1.90** | **–** | 1.90 | (2,345) |
| Expired during the period | **1.90** | **(6,253)** | 1.90 | (2,372) |
| At 30 June (unaudited) | **1.90** | **84,824** | 1.90 | 91,374 |

## 24. SHARE OPTION SCHEME *(continued)*

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

| **30 June 2016 Number of options '000** | **Exercise price* HK$ per share** | **Exercise period** |
|---|---|---|
| **84,824** | **1.90** | **On or before 15 November 2016** |

| 30 June 2015 Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 91,374 | 1.90 | On or before 15 November 2016 |

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

The Group recognised no share option expense during the six-month period ended 30 June 2016 (six-month period ended 30 June 2015: RMB1,902,000). There were no share options exercised during the six-month period ended 30 June 2016.

At the end of the reporting period, the Company had 84,824,000 share options outstanding under the share 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 84,824,000 additional ordinary shares of the Company and additional share capital of HK$2,121,000 (equivalent to approximately RMB1,812,000) and share premium of HK$159,045,000 (equivalent to approximately RMB135,931,000) (before issue expenses and the amount to be transferred from the related share option reserve).

As of the date of approval of the Interim Financial Information, the Company has 84,824,000 share options outstanding under the share option scheme, which represented approximately 0.39% of the Company's shares in issue as at that date.

## 25. DIVIDEND

| | For the six-month period ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Interim dividend: | | |
| Nil (six-month period ended 30 June 2015: HK2.10 cents (equivalent to RMB1.62 fen)) per ordinary share | **–** | 274,769 |

Subsequent to 30 June 2016, 2015 final dividend was paid on 14 July 2016.

Pursuant to the board of directors' resolution dated 29 August 2016, the board does not recommend the payment of an interim dividend so as to preserve capital for funding needs of the Group. On 24 August 2015, the board of directors declared 2015 interim dividend of HK2.10 cents per ordinary share.

## 26. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

### (a) Operating lease arrangements

**As lessee**

The Group leases certain of its properties under operating lease arrangements. These leases have an average life of 1 to 18 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 future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **30 June 2016** | 31 December 2015 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | **RMB'000** | RMB'000 |
| Within one year | **4,597,669** | 3,092,860 |
| In the second to fifth years, inclusive | **10,247,992** | 8,507,126 |
| After five years | **4,748,928** | 3,675,363 |
| | **19,594,589** | 15,275,349 |

## 26. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(continued)*

### (a) Operating lease arrangements *(continued)*

**As lessor**

The Group has leased its investment properties and entered into commercial property sub-leases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms ranging from 1 to 10 years. The majority of the Group's leases include a clause to enable an upward revision of the rental charge on a regular basis according to prevailing market conditions. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at the end of the reporting period, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

| | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Within one year | **394,171** | 290,894 |
| In the second to fifth years, inclusive | **963,519** | 728,825 |
| After five years | **230,694** | 208,200 |
| | **1,588,384** | 1,227,919 |

### (b) Commitments

In addition to the operating lease commitments above, the Group had the following capital commitments.

| | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Construction of property and equipment | **61,835** | 70,658 |

## 27. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in the Interim Financial Information, the Group had the following significant transactions with related parties during the period.

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

| | Notes | For the six-month period ended 30 June **2016** **(Unaudited)** **RMB'000** | 2015 (Unaudited) RMB'000 |
|---|---|---|---|
| Sales to GOME Retail* | *(i)* | **1,535,650** | 1,572,469 |
| Purchases from GOME Retail* | *(i)* | **426,128** | 458,778 |
| Provision of management and purchasing services to GOME Retail* | *(ii), 6* | **31,656** | 160,897 |
| Rental expenses and other expenses to GOME Property and Beijing GOME** | *(iii)* | **68,431** | 66,380 |
| Service fee to GOME Ruidong and Anxun Logistic (defined in (i) and (iv) below) | *(iv)* | **243,044** | 2,548 |
| Construction expenses to GOME Property | | **8,595** | – |

* 國美電器零售有限公司 ("GOME Electrical Appliance Retail Co., Ltd." or "GOME Retail") is a wholly-owned subsidiary of the Target Group.

** 國美地產控股有限公司 ("GOME Property Co., Ltd." or "GOME Property") and 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") and their respective subsidiaries are owned by Mr. Wong Kwong Yu ("Mr. Wong"), a substantial shareholder of the Company.

北京新恒基房地產有限公司("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji") is owned by a close family member of Mr. Wong. In 2007, Beijing Xinhengji assigned ownership of certain building area to GOME Property and also authorised GOME Property to manage and operate the building area, including receiving and collecting the rentals for this building area. Completion of registration of ownership assignment with the relevant PRC authorities is still pending.

## 27. RELATED PARTY TRANSACTIONS *(continued)*

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

*Notes:*

(i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and GOME Retail in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase costs from the Group's third party suppliers. The related party transactions represented the transactions between both parties before 31 March 2016 as GOME Retail became the subsidiary of the Company. The related transactions have been eliminated within the Group since 1 April 2016.

The original master purchase and master supply agreements expired on 31 December 2015. The transitional agreements were entered into on 30 December 2015 as transitional arrangements for the Group to continue its existing operations pending approval by the independent Shareholders of the Company, among other things, the acquisition of the Target Group. The acquisition was then approved by the independent Shareholders of the Company on 22 January 2016. As the transitional agreements would expire on 29 February 2016, on 25 January 2016, the Group entered into (1) the master merchandise purchase agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by 北京國美銳動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong"), which is beneficially owned by Mr. Wong, and GOME Retail to the Company's subsidiaries (including 國美電器有限公司 ("GOME Appliance") and 國美在線電子商務有限公司 ("GOME-on-line")) for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively, and (2) the master merchandise supply agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by GOME Appliance to GOME Ruidong, GOME Retail and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion (including the transactions between GOME Appliance and GOME-on-line, which is defined as connected person under the Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")), respectively. Sales and purchases represented the transactions between the Group and GOME Retail for the period from 1 January 2016 to 31 March 2016.

The transactions constitute continuing connected transactions under the Listing Rules.

(ii) The Group provides management services to GOME Retail 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 GOME Retail on a centralised basis.

The agreement was terminated after the acquisition of the Target Group.

The transactions constitute continuing connected transactions under the Listing Rules.

## 27. RELATED PARTY TRANSACTIONS *(continued)*

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

*Notes: (continued)*

(iii) On 30 December 2015, the Group renewed the lease agreements with GOME Property and Beijing GOME with respect to the continuous use of certain properties. During the six-month period ended 30 June 2016, the rental expenses incurred by the Group payable to GOME Property and Beijing GOME amounted to RMB60,547,000 (six-month period ended 30 June 2015: RMB58,496,000) and RMB7,884,000 (six-month period ended 30 June 2015: RMB7,884,000), respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

(iv) On 30 December 2015, the Group entered into (1) logistics services agreements pursuant to which GOME Ruidong and 安迅物流有限公司 ("Anxun Logistic Co., Ltd." or "Anxun Logistic"), which is beneficially owned by Mr. Wong, will provide the logistics services to GOME Appliance and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, and (2) the after-sales services agreement pursuant to which GOME Ruidong will provide the after-sales services to GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ending 31 December 2016, 2017 and 2018 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

All the above related party transactions were determined by mutual agreements between the involved parties after taking into account prevailing market prices. The board of directors of the Company confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## 27. RELATED PARTY TRANSACTIONS *(continued)*

### (b) Commitments with related companies

As disclosed in note 27(a)(iii), the Group had rental commitments with GOME Property and Beijing GOME of RMB56,640,000 (31 December 2015: RMB116,992,000) and RMB7,884,000 (31 December 2015: RMB15,768,000), respectively, under non-cancellable operating leases falling due within one year.

### (c) Compensation of key management of the Group:

| | For the six-month period ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Fees | **1,179** | 1,651 |
| Other emoluments: | | |
| Salaries, allowances and other expenses | **6,371** | 5,019 |
| Pension scheme contributions | **166** | 111 |
| Equity-settled share option expense | **–** | 825 |
| | **7,716** | 7,606 |

## 28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 | **30 June 2016 (Unaudited) RMB'000** | 31 December 2015 (Audited) RMB'000 |
| **Financial assets** | | | | |
| Equity investments at fair value through profit or loss | **1,029,201** | 1,029,142 | **1,029,201** | 1,029,142 |
| Other investments | **500,242** | 595,013 | **500,242** | 595,013 |
| | **1,529,443** | 1,624,155 | **1,529,443** | 1,624,155 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **117,731** | – | **117,731** | – |
| | **117,731** | – | **117,731** | – |

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in customers' deposits, other payables and accruals, amounts due from/to related companies and short-term interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments. The fair value of bonds payable and long-term interest-bearing bank loans is estimated by discounting the expected future cash flows using equivalent market interest rates. As the nominal interest rates approximate to the market interest rates, the fair value of bonds payable and long-term interest bearing bank loans approximate to their carrying amounts.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices.

## 28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

**As at 30 June 2016**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) RMB'000** | **Significant observable inputs (Level 2) RMB'000** | **Significant unobservable inputs (Level 3) RMB'000** | **Total RMB'000** |
| Equity investments at fair value through profit or loss | **1,029,201** | **–** | **–** | **1,029,201** |
| Other investments: | | | | |
| Equity investments | **500,242** | **–** | **–** | **500,242** |
| | **1,529,443** | **–** | **–** | **1,529,443** |

As at 31 December 2015

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Equity investments at fair value through profit or loss | 1,029,142 | – | – | 1,029,142 |
| Other investments: | | | | |
| Equity investments | 595,013 | – | – | 595,013 |
| | 1,624,155 | – | – | 1,624,155 |

## 28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

**Liabilities measured at fair value:**

**As at 30 June 2016**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Derivative financial instruments | – | 117,731 | – | 117,731 |
| | – | 117,731 | – | 117,731 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2015.

During the six-month period ended 30 June 2016, there were no transfers into or out of Level 1 and Level 2, and no transfers into or out of Level 3.

## 29. EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events subsequent to 30 June 2016.

## 30. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The Interim Financial Information was approved and authorised for issue by the board of directors of the Company on 29 August 2016.

## DISCLOSURE OF INTERESTS

### (a) Directors' and Chief Executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at 30 June 2016, the interests and short positions of the directors (the "Director(s)") of GOME Electrical Appliances Holding Limited (the "Company") and the chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

| Name of Director/ Chief Executive | Personal interest | Interest of spouse | Corporate interest | Trustee | Total | Approximate % of shareholding |
|---|---|---|---|---|---|---|
| Wang Jun Zhou | 10,187,000 *(Note 1)* | – | – | – | 10,187,000 | 0.05 |

*Note:*

1. The relevant interests represented 10,187,000 shares of the Company (the "Share(s)") issuable upon exercise of the options (the "Option(s)") granted to the Chief Executive 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 the Chief Executive beneficially.

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

Save as disclosed above, as at 30 June 2016, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## (b) Directors' benefits from rights to acquire shares or debentures

At the annual general meeting of the Company held on 15 April 2005, the Company adopted the Share Option Scheme pursuant to which the board of the Company (the "Board") may grant share options to subscribe for the Shares to employees, executives and officers of the Company and its subsidiaries (the "Group") and such other persons as referred to in the Share Option Scheme whom the Board considers will contribute or have contributed to the Group (the "Participants") to provide them with incentives and rewards for their contribution to the Group (Note). On 7 July 2009, share options to subscribe for an aggregate of 383,000,000 Shares had been granted pursuant to the Share Option Scheme. Save for the Share Option Scheme, the Company has no other share option scheme.

At no time during the period was the Company, any of its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

*Note:* The Share Option Scheme has expired on 14 April 2015, accordingly save for the 84,824,000 options (representing approximately 0.39% of the issued share capital of the Company as at 29 August 2016) that have been granted before the expiry date but not yet exercised, there is no more Share available for issue under the Share Option Scheme.

Options granted under the Share Option Scheme remain valid until 15 November 2016 in accordance with the terms of the Share Option Scheme and the terms of their grant.

## (c) Particulars of the directors' service contracts

As at 30 June 2016, none of the Directors had entered or was proposing to enter into a service contract with the Company or any member of the Group which is not determinable within one year without payment of compensation (other than statutory compensation).

## (d) Directors' interests in competing business

During the six-month period ended 30 June 2016 (the "Reporting Period"), no Director of the Company was interested in any 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 were considered to compete or were likely to compete, whether directly or indirectly, with the businesses of the Group.

However, during the Reporting Period, Mr. Wong Kwong Yu ("Mr. Wong"), Ms. Du Juan, being the spouse of Mr. Wong, and Ms. Huang Xiu Hong (who was elected as director of the Company on 24 June 2015), being a sister of Mr. Wong, remained as directors of certain subsidiaries of the Company and had beneficial interest or held directorship or otherwise had control, through Artway Development Limited and its subsidiaries (the "Target Group") (which is ultimately wholly owned by Mr. Wong), in companies which operate an electrical appliances and consumer electronics products retail network under the trademark of "GOME Electrical Appliances", and related operation, mainly in cities other than the designated cities of the PRC in which the Group already operates (formerly known as the "Non-listed GOME Group").

On 31 March 2016, the Company completed the acquisition of the Target Group (the "Completion"). Since Completion, the Board considers that there is no longer any competition between the Group and Mr. Wong and his associates in the retail business of electrical appliances and consumer electronics products under the "GOME" brand name.

During the Reporting Period and upon Completion, Mr. Wong and his associates remained interested in 40% of GOME-on-line and the Group remained interested in 60% of GOME-on-line. Since May 2012, the Group has operated GOME-on-line with no geographical restrictions.

### (e) Material supplements to directors' profile

Mr. Ng Wai Hung has been an independent non-executive director of Xinyi Automobile Glass Hong Kong Enterprises Limited since 25 June 2016, which is listed on the Hong Kong Stock Exchange.

Mr. Lee Kong Wai, Conway has ceased to be an independent non-executive director of CITIC Securities Company Limited since 9 May 2016.

## SHARE OPTION SCHEME

As at 30 June 2016, Options to subscribe for an aggregate of 84,824,000 Shares 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 2016 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | As at 30 June 2016 *(Note 1)* | Price of Shares for Options exercised during the period *(Note 5)* |
| | | HK$ | | | | | | HK$ |
| Chief Executive | | | | | | | | |
| Wang Jun Zhou | 7 July 2009 | 1.90 | 10,187,000 | – | – | – | 10,187,000 | – |
| Other employees | 7 July 2009 | 1.90 | 80,890,000 | – | – | (6,253,000) *(Note 4)* | 74,637,000 | – |
| Total | | | 91,077,000 | – | – | (6,253,000) | 84,824,000 | |

*Notes:*

1. On 5 December 2011, a resolution was passed by the shareholders of the Company to amend the terms of the Options granted and the terms of the Share Option Scheme. On 31 August 2012 and 23 June 2015, other resolutions were passed by the Board to further amend the terms of the Options granted, respectively. As at 30 June 2016, the revised terms would have the following effects:

    a. 84,824,000 vested Options will become lapsed and ceased to have any further effect after 15 November 2016.

    b. In addition to the changing of the exercise periods of the Options, performance targets were added as a new condition for the exercise of the unvested Options. Such performance targets are to be determined based on the weighted average of revenue and profits generated, new stores opened, special projects and other administrative work undertaken by the grantee, the compliance of the relevant internal and external law and regulations by the grantee and by reference to his/her seniority and job functions within the Group. Any grantee whose performance is assessed to be short of the performance target will have his/her number of unvested Options for vesting in the forthcoming exercise period adjusted downward and cancelled in proportion to the shortfall of his performance assessment to the performance target when such Options are vested.

2. 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 of HK$1.90 per share, 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.

3. As at 30 June 2016, all the Options granted have been vested.

4. 6,253,000 Options were lapsed during the six-month period ended 30 June 2016.

5. The price of Shares disclosed for the Options exercised during the period is the weighted average of the closing price, quoted on the Stock Exchange immediately before the date of exercise of Options.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or the Chief Executive, as at 30 June 2016, other than the Director or the Chief Executive as disclosed above, the following persons had interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept under Section 336 of the SFO:

### (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 *(Note 1)* | Interest in controlled corporation | 11,000,503,338 | 49.63 |
| Ms. Du Juan *(Note 2)* | Interest in controlled corporation | 11,000,503,338 | 49.63 |
| Ever Ocean Investments Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 24.81 |
| GOME Holdings Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 24.81 |
| Power Charm Holdings Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 24.81 |
| GOME Home Appliances (H.K.) Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 24.81 |
| GOME Management Limited *(Note 3)* | Beneficial owner | 5,500,000,000 | 24.81 |
| Shinning Crown Holdings Inc. *(Note 4)* | Beneficial owner | 4,619,779,938 | 20.84 |

*Notes:*

1. Of these 11,000,503,338 Shares, 5,500,000,000 Shares were held by GOME Management Limited, 4,619,779,938 Shares were held by Shinning Crown Holdings Inc. and 634,016,736 Shares were held by Shine Group Limited (all the above companies are 100% beneficially owned by Mr. Wong), and 240,955,927 Shares were held by Smart Captain Holdings Limited and 5,750,737 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). Excluded from the above table are 2,500,000,000 warrants hold by GOME Management Limited which are convertible into 2,500,000,000 Shares of the Company at the initial exercise price of HK$2.15 per Share.

2. Ms. Du Juan is the spouse of Mr. Wong. The aforesaid Shares that Mr. Wong and Ms. Du Juan are deemed to be interested refer to the same parcel of Shares.

3. All these companies are 100% beneficially owned by Mr. Wong. The Shares held by these companies refer to the same parcel of Shares and excluding the 2,500,000,000 warrants held by GOME Management Limited which are convertible into 2,500,000,000 Shares of the Company at the initial exercise price of HK$2.15 per Share prior to the second anniversary of 31 March 2016.

4. Shinning Crown Holdings Inc. is 100% beneficially owned by Mr. Wong.

### (b) Interests and short positions of other persons in the shares and underlying shares of the Company

Save as disclosed above, so far as is known to any Director or Chief Executive, as at 30 June 2016, no other person (other than the Director or the Chief Executive of the Company), 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 which were recorded in the register required to be kept under Section 336 of the SFO.

## OTHER INFORMATION

### INTERIM DIVIDEND

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

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

During the six-month period ended 30 June 2016, the Company repurchased an aggregate of 296,649,000 Shares on the Hong Kong Stock Exchange, details of which are as follows:

| **Month/Year** | **Number of shares repurchased** | **Highest price** | **Lowest price** | **Aggregate consideration (excluding expenses)** |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| May to June 2016 | 296,649,000 Shares of HK$0.025 each in the share capital of the Company | 0.94 per Share | 0.89 per Share | 269,667,760 |
| | 296,649,000 Shares | | | 269,667,760 |

The Shares repurchased during the six-month period ended 30 June 2016 were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value thereof.

During the six-month period ended 30 June 2016, GOME Appliance Company Limited (國美電器有限公司), a wholly-owned subsidiary of the Company, issued corporate bonds with aggregate nominal value of RMB5,000 million at fixed coupon rates ranged from 4.00% to 4.50% per annum in the PRC. Such corporate bonds have a term of 6 years.

Save as disclosed, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six-month period ended 30 June 2016.

## CHANGES TO THE BOARD

There were no change to the Board during the six-month period ended 30 June 2016.

## CORPORATE GOVERNANCE

The Company is committed to upholding good corporate governance practices. For the six-month period ended 30 June 2016, the Company was in compliance with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

## 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, all Directors have confirmed their compliance with the Model Code during the period under review.

## 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:

During the period ended 30 June 2016, 天津國美商業管理諮詢有限公司 ("Tianjin GOME Commercial Consultancy Company Limited" or "Tianjin Consultancy"), a subsidiary of the Company, had advances in the aggregate amount of RMB3.6 billion (the "Advance") to 北京戰聖投資有限公司 ("Beijing Zhansheng Investment Co., Ltd." or "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" or 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 was 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." or "Dazhong"). The Advance was a secured loan. Due to the Group had completed the acquisition of Dazhong on 31 March 2016, the Advance had been repaid to Tianjin Consultancy in full.

## REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee of the Company has reviewed the interim report of the Company, together with the internal control and financial reporting matters of the Group, which includes the unaudited interim condensed consolidated financial information of the Group for the six-month period ended 30 June 2016 as reviewed by Ernst & Young, the external auditors.

# CORPORATE INFORMATION

## Directors

### Executive Director
ZOU Xiao Chun

### Non-executive Directors
ZHANG Da Zhong *(Chairman)*
HUANG Xiu Hong
YU Sing Wong

### Independent Non-executive Directors
LEE Kong Wai, Conway
NG Wai Hung
LIU Hong Yu
WANG Gao

## Company Secretary

SZETO King Pui, Albert

## Authorised Representatives

ZOU Xiao Chun
SZETO King Pui, Albert

## Principal Bankers

China Construction Bank
CITIC Bank
Industrial Bank
China Merchants Bank
Bank of Shanghai

## Auditors

Ernst & Young
Certified Public Accountants

## Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## Head Office

Suite 2915, 29th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

## Principal Share Registrar in Bermuda

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## Branch Share Registrar in Hong Kong

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong