



國 美 電 器 控 股 有 限 公 司
GOME ELECTRICAL APPLIANCES HOLDING LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 493)



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Financial Highlights and Business Summary

Financial Highlights

	1H 2006 RMBm	1H 2005 RMBm	Percentage change (%)
Revenue	12,168	8,281	46.94%
Gross Profit	1,156	715	61.68%
Profit for the period	467	371	25.88%
Net Profit Attributable to Equity Holders of the Company	345	238	44.96%
Earnings Per Share			
– basic, for profit for the period	RMB19 fen	RMB14 fen	35.71%
– diluted, for profit for the period	RMB16 fen	N/A	N/A

Business Summary

- Continued enhancement of retail network
- Implemented business improvement initiatives
- Forged strategic alliance with Warburg Pincus
- Completed the acquisition of the remaining 35% equity interest in Gome Appliance
- Announced merger with China Paradise, by way of a Voluntary General Offer

Management Discussion and Analysis

BUSINESS SUMMARY

After a year of heavy investments and rapid store expansion in 2005, the Group has achieved a major milestone under the Growth Initiative by significantly enlarging its growing network and establishing an unparalleled footprint in the market. The Growth Initiative is a four-year strategic business plan spanning 2005 to 2008. In 2006, the Group is leveraging its platform of extensive resources in the China market and focusing on business initiatives aimed at improving core business fundamentals and competencies.

In the first six months of 2006 ("Period A"), the Group achieved revenue of RMB12,168 million, and net profit attributable to equity holders of the Company of RMB345 million. In the period, the Group entered 27 new cities and added 84 traditional stores and 1 mega store. At the same time, as part of the business improvement initiatives, 9 traditional and 1 digital stores were closed. Therefore, as of the end of Period A, the Group was present in 96 cities with 334 traditional stores, 1 mega store and 3 digital stores. Total sales area reached approximately 1,330,000 square meters as of the end of Period A and the weighted average sales area was approximately 1,190,000 square meters in Period A. The size of traditional stores averaged approximately 4,000 square meters at period end.

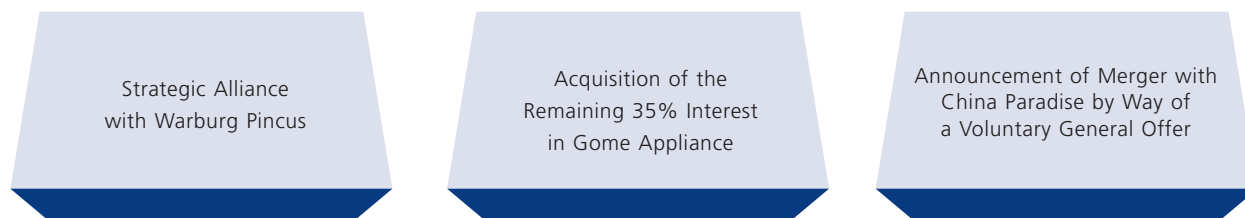
The Group is of the view that competition in the retail of consumer electronics products is shifting from mere store coverage and price to a more sophisticated stage where the ability to offer an overall good shopping experience is becoming increasingly critical. The Group firmly believes that it must therefore continue to strengthen its competitive edge in order to solidify its leadership position. Therefore, at the same time as the Group continues to enhance its store network, it is emphasizing on initiatives aimed at improving operating efficiency, enhancing store competitiveness, building brand loyalty, and elevating customer satisfaction in 2006.

Accordingly, during Period A, the Group began to establish a CRM (Customers Relationship Management) system, roll out a "household appliances hospital" maintenance service system, and add, among other functions, an after-sales installation service module to the ERP (Enterprise Resources Planning) system. At the same time, promotion on the membership program and installment purchase plan also continued. These measures are aimed at enabling the Group to improve operating efficiency and its customer service to enjoy high quality and excellent service from GOME, thereby enhancing our customers' level of satisfaction and their loyalty.

Management Discussion and Analysis

RECENT CORPORATE ACTIVITIES

The Group was involved in a number of corporate transactions since the beginning of 2006:



STRATEGIC ALLIANCE WITH WARBURG PINCUS

On 28 January 2006, the Group announced a strategic alliance with Warburg Pincus Private Equity IX, L.P. (“Warburg Pincus”), under which Warburg Pincus made a strategic investment in the Company through the issuance of US\$125 million convertible bonds and US\$25 million warrants. The investment in the Company is the largest that Warburg Pincus has made to date in the PRC.

Under a subscription agreement, Warburg Pincus subscribed for five-year convertible bonds due 2011 in the aggregate principal amount of US\$125 million. The bonds carry an annual coupon rate of 1.5% payable semi-annually and a yield to put and maturity of 3.26%, and will be convertible, subject to certain conditions, into the Company’s new ordinary shares at an initial conversion price of HK\$6.40 per ordinary share.

In addition, Warburg Pincus also subscribed for US\$25 million five-year warrants for new ordinary shares of the Company at a subscription price of US\$3 million. Warburg Pincus has the right to exercise the warrants at an initial exercise price of HK\$7.70 per ordinary share.

Upon full conversion of the convertible bonds and exercise of the warrants, Warburg Pincus would hold 176,680,630 ordinary shares.

To further demonstrate his support and commitment, Mr. Wong Kwong Yu, the Chairman, an executive director and the controlling shareholder of the Company, has made additional undertakings to the Company with respect to the business and assets of the companies which he is beneficially interested in and are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of “GOME Electrical Appliances” in the cities other than the designated cities in which the Group operates (the “Parent Group”), including a financial audit and the eventual injection of the Parent Group’s retail business into the Group.

The Group believes that Warburg Pincus would bring its international experience and M&A expertise to assist the Group as it continues to embark on a growth path. At the same time, Warburg Pincus’ board representation would encourage the Group to continue to adopt the best international practices in management and corporate governance.

Management Discussion and Analysis

ACQUISITION OF THE REMAINING 35% INTEREST IN GOME APPLIANCE

On 29 March 2006, the Company announced the acquisition of the remaining 35% equity interest in Gome Appliance Company Limited ("Gome Appliance"), which is the Company's main operating subsidiary in the PRC. Total consideration of the acquisition was approximately HK\$6,986.7 million, which was satisfied:

- as to approximately HK\$5,235.3 million by the issue of 650,346,949 new shares
- as to approximately HK\$761.4 million by the set-off against the consideration for a property located in Beijing
- as to HK\$990 million in cash

The acquisition had been long expected by the market and represented a big step forward in simplifying the Group's corporate structure and in consolidating the Company's its interest in Gome Appliance. The significance of the transaction is reflected in the following financial and strategic values:

- Simplification of corporate structure
- Consolidation of interest in Gome Appliance from 65% to 100%
- Strengthening of financial profile in terms of net profit and market capitalization
- Accretion of EPS

The acquisition was subsequently completed in early May 2006.

ANNOUNCEMENT OF MERGER WITH CHINA PARADISE BY WAY OF A VOLUNTARY GENERAL OFFER

On 25 July 2006, the Group and China Paradise Electronics Retail Limited ("China Paradise") announced the terms of a voluntary general offer made by the Company to acquire all of the issued share capital of China Paradise not already owned by the Company and parties acting in concert with it. For every 1 share held, the shareholders of China Paradise shareholders will receive 0.3247 new GOME share and HK\$0.1736 in cash. The offer values the entire issued share capital of China Paradise at HK\$5,268.0 million.

The Group believes that the merger with China Paradise, the leading household appliances retailer in Shanghai and one of the top three household appliances retail chain operators, offers the enlarged group numerous operational and financial benefits:

- it will enjoy a strengthened position from which to pursue other opportunities to consolidate the market
- the two companies have complementary geographic networks from which to further expand; in particular China Paradise delivers to the Group its dominant position in Shanghai and other regions in the country

Management Discussion and Analysis

- it will reduce price competition which enables the enlarged group to focus its efforts on business improvements and enhancement of customer services
- it will offer synergy savings through better bargaining power with suppliers, elimination of overlapping administrative costs, and better economies of scale
- it will strengthen the balance sheet of the enlarged group so as to provide increased flexibility for future organic growth and acquisition opportunities
- the enlarged market capitalization and shareholder base significantly improves liquidity in GOME stock and provides greater access to the capital markets

The proposed merger with China Paradise is expected to be completed in the fourth quarter of 2006.

Management Discussion and Analysis

OVERVIEW OF THE GROUP FOR THE FIRST HALF OF 2006

Having achieved a solid platform of store resources in Year 2005 in which the Group more than doubled its network, the Group entered Year 2006 with the objective of further improving its business operations and consolidating its leadership position. During the period, the Group was confronted with a number of challenges:

- Revenue growth – the Group must seek to mitigate competitive pressure and accelerate revenue growth, especially in the newly opened and second tier city stores, in order to capture market share and further widen the lead over the competition
- Sales efficiency – in light of declining sales efficiency, the Group seeks to reverse the downward trend in same store sales growth and moderate the decline in sales per square meter
- Cost ratios – they have been rising and the Group must implement tight cost control and improve sales performance in order to alleviate the negative impact
- Management initiatives – the Group is implementing a number of business improvement programs in 2006 and must seek to differentiate itself through the successful implementation of such initiatives
- Market consolidation – the Group must continue to strengthen its market leadership and act as a consolidator in the current competitive and fragmented market

The ability to overcome these challenges, especially at newly opened stores and stores in second tier cities, is critical to the buttressing the Group's leadership position and its financial wellbeing.

Management Discussion and Analysis

STORE ROLLOUT

In Period A, the Group continued to expand its retail network by opening 84 new traditional stores and 1 mega store. At the same time, it closed down 9 traditional stores and 1 digital store. In the first six months of 2005 ("Period B"), the Group opened 56 new and closed down 3 traditional stores. During the same period, it also closed down 9 digital stores. The following table illustrates the Group's store network as of the end of Period A and Period B:

List of company stores network broken down by store format and by region

Region	Period A			Period B		
	Traditional	Mega	Digital	Traditional	Mega	Digital
Beijing	42	–	–	26	–	2
Tianjin	23	–	–	16	–	2
Chengdu	25	–	–	15	–	5
Chongqing	19	–	–	11	–	3
Xi'an	11	–	–	10	–	1
Shenyang	16	1	–	12	–	–
Qingdao	11	–	1	7	–	1
Jinan	13	–	–	8	–	–
Guangzhou	47	–	1	21	–	3
Shenzhen	39	–	–	19	–	–
Wuhan	19	–	–	8	–	1
Kunming	12	–	–	7	–	–
Fuzhou	18	–	1	9	–	1
Nanjing	11	–	–	–	–	–
Quanzhou	5	–	–	–	–	–
Tangshan	5	–	–	–	–	–
Hefei	4	–	–	–	–	–
Suzhou	4	–	–	–	–	–
Changzhou	4	–	–	–	–	–
Lanzhou	3	–	–	–	–	–
Xuzhou	3	–	–	–	–	–
	334	1	3	169	–	19

Of the total 334 traditional stores at the end of Period A, 218 were in first tier cities and 116 were in second tier cities.

During Period A, the Group purchased 2 additional store properties. In the future, the Group may continue to acquire additional selective store locations which are considered strategic. Securing good store locations at reasonable costs is becoming increasingly competitive. As a result, management is of the view that acquisition of retail properties in prime commercial locations would be helpful in mitigating the uptrend in rental expenses and in ensuring stability of operation.

Management Discussion and Analysis

Therefore the Group believes that it must retain the flexibility and financial resources to make a purchase decision if necessary. The Group will continue to exercise caution in making such decisions to ensure the overall financial health of the Group.

In addition to the store network at the Group, the Parent Group also entered 11 new cities and added 41 traditional stores on a net basis but eliminated 1 digital store in Period A. As a result, the Parent Group's network amounted to 220 stores across 72 cities, of which 217 were traditional stores and 3 digital stores. On a combined basis, the Group and the Parent Group operated a network of 558 stores across 168 cities in the PRC at the end of Period A.

STORE LEASES

At the end of Period A, all but 7 of the Group's stores were leased. More than 90% of the leases range from 3 to 12 years and the average remaining tenor of the leases at the end of Period B was approximately 6.98 years. About 44% of the leases have fixed rental expenses and the other 56% are subject to pre-agreed intermittent step-up mechanism. The Group can usually terminate a lease with one to three months' notice without incurring much additional costs.

MANAGEMENT INITIATIVES

The Group began to implement the following initiatives in 2006:

- Improve core retail competencies: the importance of this initiative cannot be underestimated. The Group is paying close attention to store operating efficiencies such as front line employee productivity, shelf-space utilization ratio, and store level cost control. At the same time, the Group is implementing proactive control over promotions and optimizing SKUs and suppliers in order to recapture more gross margins. The Group is also leveraging on the GOME brand, which is the #1 brand in the consumer electronics retail sector in China, in promoting its network and products. The Group believes that positive impact from such programs will gradually come through in the near future.
- Enhance network coverage – in 2006, the Group is planning to add 120 to 150 traditional stores. It will also continue to expand into new cities. The Group started to enter second tier cities on a big scale in 2005. At the same time, a small number of selective mega stores will be opened if suitable locations can be secured.
- Enter second tier cities – characterized by significant market potential and less competition, second tier cities represent the next phase of growth for the Group. However, initial challenges include weaker purchasing power, longer penetration time, and smaller economies of scale which lead to longer breakeven period and less revenue on a per square meter basis. The Group aims to adopt flexible sales and marketing strategies in order to overcome such challenges and capitalize on the growth opportunities in these cities.
- Strengthen store network – as the Group continues to add stores in 2006, it is also closing down stores which are not as competitive. Store attrition, especially after 2005 in which the Group more than doubled its store network, is critical in ensuring that the Group's financial performance is not distorted by unproductive locations.
- Build IT infrastructure – in 2006, the Group will continue to enhance its IT infrastructure by adding a CRM component and ERP functionalities to improve the handling of sales transaction management, inventory monitoring, after-sales and customer feedback management.

Management Discussion and Analysis

- Promote membership program – in October 2005, the Group launched another market-first initiative by introducing a tiered, point membership program nationally. The program is turning into a major success with membership reaching more than 4 million at the end of Period A. Together with the Parent Group, total membership had reached 5.5 million. With this program, the Group is capturing valuable customer data which the Group is seeking to turning into powerful marketing tools. The Group views the membership program as a key component of its overall effort to instill awareness of the GOME brand and loyalty in its customers.
- Introduce mega store format – the first mega store was opened in Shenyang in the beginning of 2006 under a new brand, Eagle. This alternative store format is launched to capitalize on what the Group believes is an emerging consumer group with high spending power which is increasingly looking for higher-end products and better shopping experience. The Group expects to open 2 additional mega stores by the end of 2006.
- Explore other revenue opportunities – group purchase arrangements, the maintenance service system and e-commerce represent additional revenue opportunities that the Group intends to further explore. Under the maintenance service system initiative which was first initiated in Period A, related infrastructure and network of alliances with suppliers and third party repair shops are now being put in place.

FINANCIAL PERFORMANCE

Revenue

In Period A, the Group generated all of its revenue from its retail operation in the PRC, compared to Period B in which the Group also generated a small amount of revenue from the non-core securities and futures brokerage business which was disposed off in April 2005.

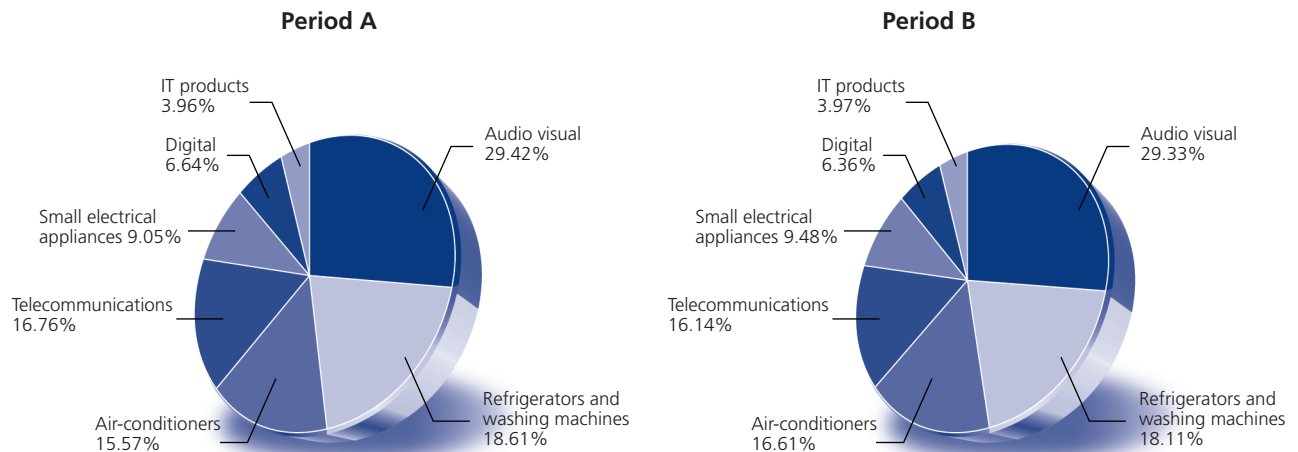
More than 98% of the revenue in Period A was derived from sales at traditional stores, with the rest contributed by other store formats and bulk purchases. The first Eagle mega store, which was opened in Shenyang during the period, is still in a very initial development stage. The Group will closely monitor its performance and continue to fine-tune its business model.

Revenue of the Group increased by approximately 47% to RMB12,168 million in Period A from RMB8,281 million in Period B. The increase was primarily attributable to the expansion of the Group's retail network. Same store sales at 110 qualified stores decreased by approximately 1.24% in Period A. Same store sales were up approximately 4.6% in Period B. Sales at these stores accounted for approximately 51% and 76% of total revenue in Period A and Period B respectively. Sales per square meter declined by approximately 34% from RMB30,900 in Period B to RMB20,400 in Period A on an annualized basis.

Decline in same store sales and sales per square meter could be attributed to intense competition and dense store coverage which had inevitably led to a certain degree of sales cannibalization.

Management Discussion and Analysis

The following charts illustrate the revenue breakdown in Period A and Period B respectively:



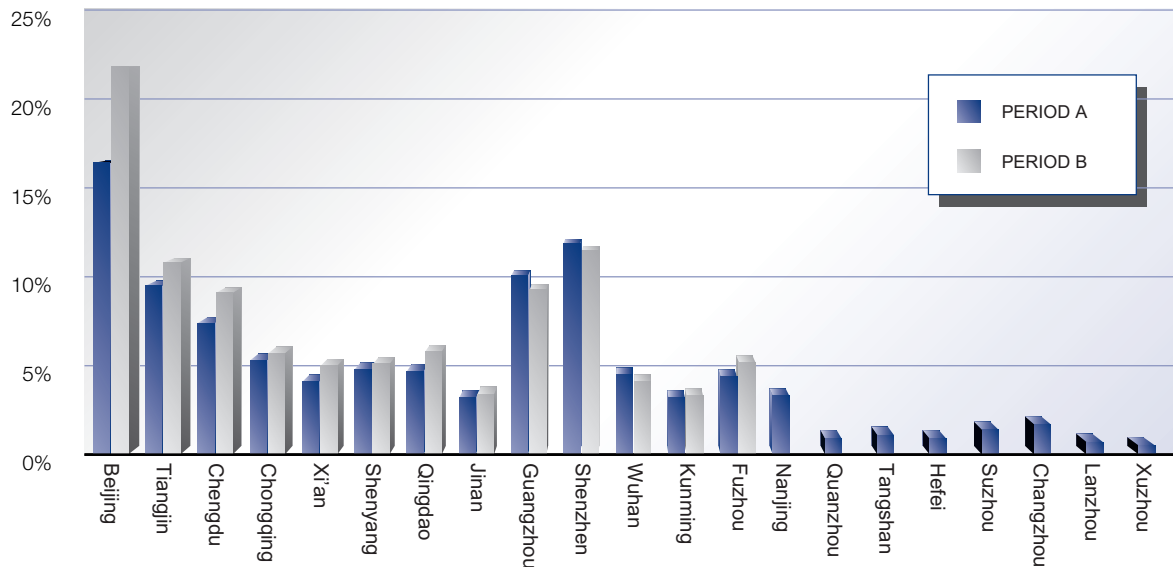
Audio visual products continued to make up the largest revenue component in the Group's product portfolio in Period A, accounting for approximately 29.4% of the revenue, compared to approximately 29.3% in Period B. As a percentage of revenue, digital products, telecommunications products, and refrigerators and washing machines rose while air-conditioners, small electrical appliances and IT products declined.

In terms of revenue, digital products, telecommunications product, and refrigerators and washing machines increased by approximately 53.6%, 52.6% and 51.1% respectively in Period A from Period B. On the other hand, revenue of air-conditioners and small electrical appliances grew by approximately 37.8% and 40.4% respectively in Period A from Period B.

Management Discussion and Analysis

In addition to a diversified product portfolio, the Group is also balanced in terms of geographical revenue contribution. Beijing continued to be the largest revenue contributor, accounting for approximately 16.4% of the Group's revenue in Period A, compared to approximately 21.8% in Period B. The revenue breakdown by region is illustrated as follows:

List of company stores network in terms of geographical revenue contribution



The management of the Group estimates that in terms of revenue contribution, Chinese brands contributed approximately 67% while foreign brands accounted for the rest in Period A, which is relatively stable from the breakdown in Period B. The top 5 suppliers accounted for approximately 31.1% of the Group's total purchase in Period A, compared to approximately 25.8% in Period B.

The management of the Group believes that such a balance reflects a healthy mix of products and brands and preference by consumers. It is also testament to the ability of the Group to work effectively with both foreign and domestic brands and distribute their products through its retail channels.

Cost of sales

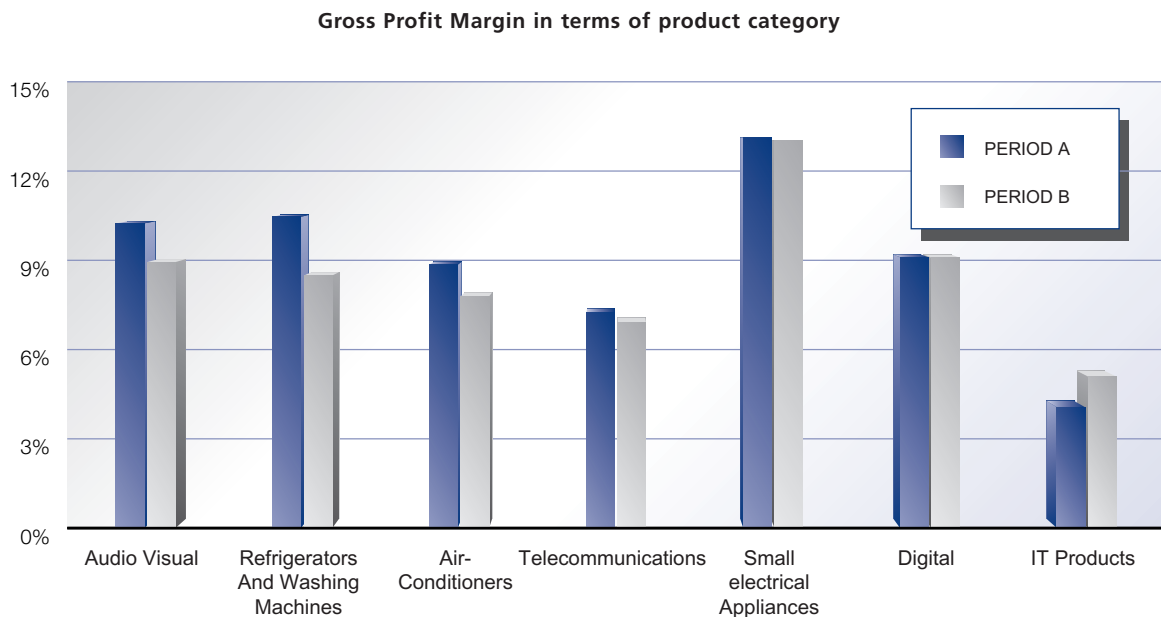
Cost of sales of the Group increased by 46% to RMB11,012 million in Period A from RMB7,566 million in Period B, principally as a result of increased sales volume.

Management Discussion and Analysis

Gross profit

Gross profit of the Group increased by approximately 62% to RMB1,156 million in Period A from RMB715 million in Period B. Gross profit margin increased to approximately 9.5% from approximately 8.63%. The management is of the view that the higher gross margin recorded during the reporting period was as a result of further economies of scale achieved by the Group and better pricing strategy implementation.

The following charts illustrates gross profit margin by product category in Period A and B:



Other income

The Group has been able to secure other income, mainly from suppliers pursuant to the Group's standardized supply contracts. Additionally, other income includes fee paid by air-conditioner installation contractors in connection with installation services for customers referred by the Group and management and purchasing service fees paid by the Parent Group for the provision of management and purchasing services by the Group in respect of the Parent Group's electrical appliance and consumer electronics retail operations in designated cities in the PRC.

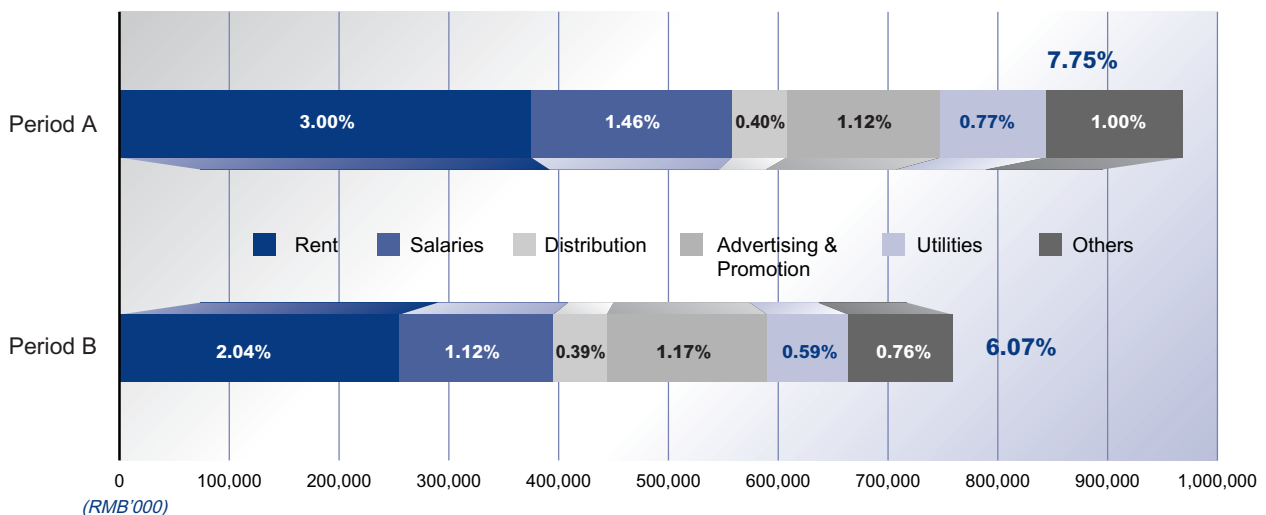
Other income of the Group increased by approximately 46% to RMB488 million in Period A from RMB333 million in Period B. The rise was primarily due to higher income from suppliers, which grew by approximately 55% to RMB332 million, or approximately 2.73% of revenue in Period A from RMB214 million, or approximately 2.58% in Period B. Higher management fee from the Parent Group also contributed to the rise in other operating income.

Other income as a percentage of revenue declined slightly to approximately 4.01% in Period A from approximately 4.03% in Period B.

Management Discussion and Analysis

Selling and distribution costs

Selling and distribution expenses of the Group increased by approximately 88% to RMB942 million in Period A from RMB503 million in Period B. They comprise rental expenses, salaries and commissions of sales staff, utility charges, advertising, delivery and promotional expenses and other store-related expenses. As a percentage of revenue, selling and distribution expenses rose to approximately 7.75% from approximately 6.07%. The rise in selling and distribution expenses could be attributed to the significant increase in the stores number in Period A. The breakdown of the major items of the selling and distribution costs as a percentage of revenue for Period A and Period B is illustrated as follows:



Administrative expenses

Administrative expenses of the Group increased by approximately 88% to RMB209 million in Period A from RMB111 million in Period B. The major item of administrative expenses is salary expenses. The increase was primarily due to higher salary expenses incurred by the hiring of additional personnel and rises in salary and staff welfare for management personnel. As a percentage of revenue, administrative expenses rose to approximately 1.72% in Period A from approximately 1.34% in Period B.

Other expenses

Other expenses of the Group increased by 46% to RMB60 million in Period A from RMB41 million in Period B. The increase was primarily due to the expansion of the retail network of the Group, the increase in revenue, and the accompanying increase in business taxes, bank processing fees, and miscellaneous expenses. Other operating expenses as a percentage of revenue was approximately 0.49% in Period A, same as that of approximately 0.49% in Period B.

Management Discussion and Analysis

Finance costs

The finance costs of the Group increased to RMB28 million in Period A from nil in Period B as a result of effective interest expense accrued on the US\$125 million convertible bonds issued to Warburg Pincus in March 2006. Please note that most of the interest expense on the convertible bonds is non-cash in nature. Cash coupon on the bond is 1.5%.

Finance income

The finance income of the Group increased significantly by 474% to RMB121 million in Period A from RMB21 million in Period B. The increase was due to (1) bank interest income increase as a result of higher bank deposit rates and higher bank balance kept, including more pledged deposits; (2) RMB12 million in interest income received from a related company which acquired a piece of property in Beijing from the Group in 2005; and (3) a fair value gain of RMB54 million on the derivative component of convertible bonds in the period.

Income tax

Income tax paid by the Group increased by approximately 33% to RMB59 million in Period A from RMB44 million in Period B. The effective tax rates in Period A and Period B were approximately 11.2% and 10.6% respectively.

Profit for the period attributable to equity holders of the Company

As a result of the foregoing, the profit for the period attributable to equity holders of the Company increased by 45% to RMB345 million in Period A from RMB238 million in Period B. Net profit margin after minority interest accordingly declined to approximately 2.83% from approximately 2.87%.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents

The Group continues to enjoy a strong financial position. As of the end of Period A, the Group had RMB1,955 million in cash and cash equivalents, compared to RMB1,079 million as at 31 December 2005.

Trade and bills payables

Trade and bills payables amounted to RMB8,356 million as of the end of Period A, representing a 23% increase from RMB6,805 million at the end of 2005. Trade payables and bills payable days increased from 112 in 2005 to 124 in Period A.

Inventory

Inventories increased from RMB2,725 million as of 31 December 2005 to RMB2,741 million as of the end of Period A. Inventory turnover days increased from 43 in 2005 to 45 in Period A. The management of the Group considers the movement stable and within a normal band.

Management Discussion and Analysis

Indebtedness and leverage

As of 30 June 2006, the Group had no long-term or short-term borrowings except the abovementioned US\$125 million convertible bonds issued to Warburg Pincus. The Group's debt to equity ratio, expressed as a percentage of interest bearing external borrowings over owners' equity was 285%. The high ratio is mainly due to a significant decrease in the owner's equity from RMB1,511 million as of 31 December 2005 to RMB339 million at the end of Period A as a result of the accounting treatment for the acquisition of the 35% equity interest in Gome Appliance.

Capital expenditures

During Period A, the Group invested RMB181 million to acquire property, plant and equipment in connection with the expansion of its retail store network. In addition, the Group paid RMB148 million as balance payment of consideration for the subsidiaries acquired in 2005 and RMB1,020 million in acquiring the 35% equity interest in Gome Appliance.

Cash flow

The Group continued to enjoy stable and strong net cash inflow from operating activities of RMB1,211 million in Period A, compared to RMB796 million in Period B.

Cash outflow from investing activities amounted to RMB1,349 million in Period A, compared to RMB162 million in Period B, primarily as a result of higher capital expenditures and the acquisition of the 35% equity interest in Gome Appliance during Period A.

Cash inflow from financing activities during Period A amounted to RMB1,013 million, compared to no cash flow from financing activities in Period B.

CHARGES ON CAPITAL ASSETS

As of 30 June 2006, the Group had pledged deposits amounting to RMB4,055 million, which were used to secure the bank acceptance draft facilities granted to the Group.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

There were no material contingent liabilities and capital commitment as of the end of Period A.

Management Discussion and Analysis

FOREIGN CURRENCIES AND TREASURY POLICY

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

The Group estimates that less than 10% of the Group's current purchase is imported products, which are sourced from suppliers and distributors in the PRC. Such transactions are denominated in the RMB. Considering the administrative revaluation of RMB against US\$ in the third quarter of 2005 and the likely fluctuation of the value of RMB in the future, the management of the Group decided to switch its reporting currency to RMB, which is its functional currency, in 2005.

HUMAN RESOURCES

As of the end of Period A, the total number of employees of the Group was 25,076, including 25,058 in the PRC and 18 in Hong Kong. At the end of Period B, the total number of employees of the Group was 13,489. It is the Group's policy to build a robust and team-oriented corporate culture which is critical to the Group's future prospect and developments.

COMPETITION AND OUTLOOK

While growth potential and opportunities abound, the consumer electronics retail market in the PRC is rife with challenges. Fragmentation and fierce competition, massive expansion, and the lack of key differentiating factors currently among peers have led to decline in sales efficiency and pressure on margin and profitability. Even though competition in the market is mainly driven by domestic peers at the moment, the threat of foreign competition is quickly emerging.

Given the fragmented and competitive nature of the industry, speed of consolidation may pick up in the near future. The Group firmly believes that strategic consolidation opportunities are essential to building strong players, eliminating irrational competitive behaviors, and restoring sustainable profitability to the marketplace. In the future, the Group will continue to look for suitable acquisition opportunities while at the same time leverage its existing resources and grow organically. In order to further strengthen its competitive lead, the Group firmly believes that it must capitalize on the growth drivers in the market and at the same time mitigate the pressure exerted on management resources and financial performance by rapid growth and market competition.

Report on Review of Interim Condensed Consolidated Financial Report of the Auditors



To the board of directors

GOME Electrical Appliances Holding Limited

(Incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2006 as set out on pages 19 to 44.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2006.

Ernst & Young

Certified Public Accountants

Hong Kong

17 August 2006

Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2006

		For the six months ended 30 June	
		2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000 (Restated) (note 1)
Notes			
Revenue	3(a)	12,167,820	8,280,789
Cost of sales		(11,011,966)	(7,565,805)
Gross profit		1,155,854	714,984
Other income	3(b)	487,504	333,496
Selling and distribution costs		(942,405)	(502,550)
Administrative expenses		(208,705)	(111,182)
Other expenses		(59,652)	(40,772)
Finance costs	6	(27,661)	–
Finance income	6	120,570	20,989
Profit before tax	5	525,505	414,965
Income tax	7	(58,663)	(44,121)
Profit for the period		466,842	370,844
Attributable to:			
Equity holders of the parent		344,531	237,669
Minority interests		122,311	133,175
		466,842	370,844
Dividends			
Interim	22	99,186	71,742
Earnings per share attributable to ordinary equity holders of the parent			
– Basic, for profit for the period	23	RMB19 fen	RMB14 fen
– Diluted, for profit for the period		RMB16 fen	N/A

Interim Condensed Consolidated Balance Sheet

As at 30 June 2006

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,234,534	909,631
Investment properties	9	5,150	5,200
Intangible assets	10	60,780	33,215
Deferred income tax assets	11	12,486	13,018
		<u>1,312,950</u>	<u>961,064</u>
Current assets			
Hong Kong listed investments, at fair value		904	861
Inventories	12	2,740,827	2,725,375
Bills receivable		407	30
Trade receivables	13	36,245	–
Prepayments, deposits and other receivables	14	377,713	467,017
Due from related parties	15	5,133	840,076
Other financial assets		–	161,000
Pledged deposits		4,055,113	3,133,124
Cash and cash equivalents		1,954,911	1,079,347
		<u>9,171,253</u>	<u>8,406,830</u>
TOTAL ASSETS		<u>10,484,203</u>	<u>9,367,894</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	16	241,085	174,099
Reserves		98,068	1,336,787
		<u>339,153</u>	<u>1,510,886</u>
Minority interests		–	360,408
Total equity		<u>339,153</u>	<u>1,871,294</u>
Non-current liabilities			
Deferred income tax liabilities	11	5,874	–
Convertible bonds	17	715,438	–
		<u>721,312</u>	<u>–</u>
Current liabilities			
Trade and bills payables	19	8,356,307	6,805,277
Customers' deposits, other payables and accruals		669,473	605,661
Due to a related party	20	–	83
Tax payable		146,216	85,579
Derivative component of convertible bonds	17	251,742	–
		<u>9,423,738</u>	<u>7,496,600</u>
Total liabilities		<u>10,145,050</u>	<u>7,496,600</u>
TOTAL EQUITY AND LIABILITIES		<u>10,484,203</u>	<u>9,367,894</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

Attributable to equity holders of the parent										
	Issued	Share				Foreign				
	share	premium	Contributed	Capital	Statutory	currency	Retained		Minority	Total
	capital	account	surplus	reserve	reserves	translation	earnings	Total	interests	equity
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)										
For the six months ended 30 June 2006:										
At 1 January 2006	174,099	763,050	657	–	216,667	(10,217)	366,630	1,510,886	360,408	1,871,294
Acquisition of										
minority interests	1	66,986	–	–	(1,524,721)	–	–	(1,457,735)	(346,219)	(1,803,954)
Issue of warrants	18	–	22,317	–	–	–	–	22,317	–	22,317
Net profit for										
the period		–	–	–	–	–	344,531	344,531	122,311	466,842
Dividends	22	–	–	–	–	–	(73,450)	(73,450)	–	(73,450)
Dividends of										
subsidiaries		–	–	–	–	–	–	–	(136,500)	(136,500)
Currency translation										
difference		–	–	–	–	–	(7,396)	(7,396)	–	(7,396)
At 30 June 2006	241,085	785,367	657	(1,524,721)	216,667	(17,613)	637,711	339,153	–	339,153
(Unaudited)										
For the six months ended 30 June 2005:										
(Restated) (note 1)										
At 1 January 2005	174,099	763,050	657	–	132,829	–	67,139	1,137,774	233,182	1,370,956
Net profit for the period		–	–	–	–	–	237,669	237,669	133,175	370,844
Disposal of subsidiaries		–	–	–	–	–	–	–	(1,276)	(1,276)
Dividends	22	–	–	–	–	–	(43,525)	(43,525)	–	(43,525)
Dividends of subsidiaries		–	–	–	–	–	–	–	(83,601)	(83,601)
At 30 June 2005	174,099	763,050	657	–	132,829	–	261,283	1,331,918	281,480	1,613,398

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

		For the six months ended 30 June	
		2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000 (Restated) (note 1)
Notes			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before income tax		525,505	414,965
Adjustments for:			
Finance income	6	(66,333)	(20,989)
Fair value gain on the derivative component of convertible bonds	6, 17	(54,237)	–
Depreciation	5	49,666	19,769
Loss on disposal of items of property, plant and equipment		–	15
Loss on disposal of subsidiaries		–	2,302
Amortisation of intangible assets	5	1,295	–
Transaction cost related to the derivative component of convertible bonds	5	2,731	–
Interest expenses on the convertible bonds	6, 17	27,661	–
Operating profit before working capital changes		486,288	416,062
Decrease in other investment		–	159
(Increase)/decrease in inventories		49,922	(352,041)
Increase in bills receivable		(377)	(680)
Increase in trade receivables		(36,245)	(32,030)
(Increase)/decrease in prepayments, deposits and other receivables		111,819	(284,293)
Decrease in amounts due from related parties		43,060	187,438
Decrease in client trust bank balances		–	10,947
Increase in pledged deposits		(920,585)	(974,877)
Increase in trade and bills payables		1,550,777	1,964,814
Increase in customers' deposits, other payables and accruals		67,577	20,852
Decrease in amounts due to a related party		(83)	(85)
Cash generated from operating activities		1,352,153	956,266
Interest received		66,333	20,990
Dividends paid		(73,450)	(43,525)
Dividends of subsidiaries		(136,500)	(83,601)
Hong Kong profits tax paid		–	(6,138)
PRC income tax refunded		5,699	–
PRC income tax paid		(3,195)	(48,070)
Net cash inflow from operating activities		1,211,040	795,922

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

		For the six months ended 30 June	
	Notes	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000 (Restated) (note 1)
Net cash inflow from operating activities		<u>1,211,040</u>	<u>795,922</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(181,407)	(194,639)
Proceeds from disposal of items of property, plant and equipment		339	1,950
Acquisition of subsidiaries		(148,318)	–
Acquisition of minority interests	1	(1,019,700)	–
Disposal of subsidiaries, net		–	30,707
Net cash outflow from investing activities		<u>(1,349,086)</u>	<u>(161,982)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of convertible notes	17	999,950	–
Issue of warrants	18	24,102	–
Transaction costs for issuing convertible bonds and warrants		(10,710)	–
Net cash inflow from financing activities		<u>1,013,342</u>	<u>–</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		1,079,347	1,659,094
Exchange difference		268	–
CASH AND CASH EQUIVALENTS AT 30 JUNE		<u>1,954,911</u>	<u>2,293,034</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances		1,739,733	1,468,893
Time deposits		4,270,291	2,700,337
		<u>6,010,024</u>	<u>4,169,230</u>
Less: Time deposits pledged for bills payable		(4,055,113)	(1,876,196)
Cash and cash equivalents		<u>1,954,911</u>	<u>2,293,034</u>

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

GOME Electrical Appliances Holding Limited (the "Company") is incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. In the opinion of the directors, the ultimate holding company is Shining Crown Holdings Inc., which is incorporated in the British Virgin Islands.

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

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

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

2. BASIS OF PREPARATION

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

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

3. REVENUE AND OTHER INCOME

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

3. REVENUE AND OTHER INCOME (continued)

(b) Other income comprises the following:

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

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

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

4. SEGMENT INFORMATION

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

5. PROFIT BEFORE TAX

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

6. FINANCE (COSTS)/INCOME

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

7. INCOME TAX

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

7. INCOME TAX (continued)

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

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

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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

9. INVESTMENT PROPERTIES

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

10. INTANGIBLE ASSETS

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

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

Notes:

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

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

15. DUE FROM RELATED PARTIES

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

Notes:

- (i) These balances mainly represented the management fee due from the Parent Group (note 26(a)(ii)). The aforesaid balances were interest-free unsecured and were fully settled subsequent to the balance sheet date.
- (ii) The balance as at 31 December 2005 represented the consideration receivable in respect of the disposal of a property project in Beijing and related accrued interest income. The balance was fully settled by offsetting against the Group's consideration for the acquisition transaction as set out in note 1 to the Interim Condensed Consolidated Financial Report.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

16. SHARE CAPITAL

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

Note:

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

17. CONVERTIBLE BONDS

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

Pursuant to the Subscription Agreement, the Bonds are:

- i) convertible at the option of the bondholders into fully paid ordinary shares on or after 1 September 2006 and up to and including 7 February 2011 at a conversion price of US\$0.8251 (equivalent to approximately RMB6.60) per share;
- ii) redeemable at the option of the bondholders at 105.49% of their principal amount on the third anniversary of the issue date of the Bonds at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued; and (3) a premium of 5.49% on the principal amount; and
- iii) at the option of the Company to request the bondholders for mandatory conversion of the convertible bonds on or after the third anniversary of the issue date with an amount equal to US\$62.5 million less the sum of the aggregate principal amount of the Bonds that have been converted or redeemed; provided that no such conversion may be made unless the volume-weighted average of the prices of the Company's shares for 30 trading days on which the shares were traded prior to the date upon which the Company's notice of the mandatory conversion is given was not less than 130% of the then prevailing conversion price.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

17. CONVERTIBLE BONDS (continued)

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

18. WARRANTS

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

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

19. TRADE AND BILLS PAYABLES

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

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

20. DUE TO A RELATED PARTY

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

21. BUSINESS COMBINATIONS

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

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

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

21. BUSINESS COMBINATIONS (continued)

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

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

22. DIVIDENDS

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

24. CONTINGENT LIABILITIES

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

25. COMMITMENTS

OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee

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

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

Operating lease commitments – Group as lessor

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in this Interim Condensed Consolidated Financial Report, the Group had the following significant transactions with the Parent Group and Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji"). The Parent Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd. and other companies which engage in the retailing and related operations of electrical appliances and consumer electronic products under the trademark of "Gome Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong. Beijing Xinhengji is owned by the family members of Mr. Wong.

(a) Continuing transactions:

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

Notes:

- (i) The sale and purchase transactions entered into between the Group and the Parent Group in respect of the retailing of electrical appliances and consumer electronic products were conducted based on the actual purchase cost from the Group's third party suppliers.
- (ii) The Group provides management services to the Parent Group in respect of the retailing of electrical appliances and consumer electronic products in cities other than the designated cities of the PRC in which the Group operates. In addition, the Group negotiates with various suppliers for both the Group and the Parent Group on a centralised basis. The total amount of management service fees and purchasing service fees was charged based on 0.6% and 0.9%, respectively, of the total turnover of the Parent Group, pursuant to a management agreement and a purchase service agreement entered into between the Group and the Parent Group.
- (iii) On 1 January 2006, the Group entered into a rental agreement with Beijing Xinhengji to lease the properties for a term of three years at an annual rental of approximately RMB3.7 million. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices within the same district.

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

26. RELATED PARTY TRANSACTIONS (continued)

(a) Continuing transactions: (continued)

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

(b) Discontinued transactions:

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

Notes:

- (i) The provision of corporate guarantees is at Nil consideration. The Group intends to replace the aforesaid guarantees as soon as it is practical.
- (ii) The amount represented interest income on the receivable in respect of the disposal of a property project in Beijing. The interest rate was 4.5% per annum. The outstanding balance of the receivable was fully settled during the current period.
- (iii) The Company paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited ("Hong Kong Gome"), a controlled company of Mr. Wong, totalling HK\$480,000 during the period (six months ended 30 June 2005: HK\$480,000).
- (iv) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's factory premises (note 9) from Hong Kong Gome, a controlled company of Mr. Wong, totalling HK\$108,000 during the period (six months ended 30 June 2005: HK\$108,000).

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

26. RELATED PARTY TRANSACTIONS (continued)

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

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

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) *Credit risk*

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

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

Notes to the Interim Condensed Consolidated Financial Report (Unaudited)

At 30 June 2006

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Interest rate risk

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

(iii) Foreign currency risk

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

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

(iv) Liquidity risk

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

28. POST BALANCE SHEET EVENT

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

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

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

29. APPROVAL OF THE FINANCIAL STATEMENTS

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

Additional Information

DISCLOSURE OF INTERESTS

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

As at 30 June 2006, the Directors and the chief executive of the Company and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to be notified to the Company and the Stock Exchange:

Long positions in the shares of the Company

Name of Directors	Number of ordinary shares held			Total	Approximate % of shareholding
	Personal interests	Interest of spouse	Corporate interests		
Wong Kwong Yu	900,087	280,000 <i>(note 2)</i>	1,563,766,947 <i>(note 1)</i>	1,564,947,034	68.26%
Du Juan	–	1,564,667,034 <i>(note 1)</i>	280,000 <i>(note 2)</i>	1,564,947,034	68.26%

Notes:

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

Save as disclosed above, as at 30 June 2006, none of the Company's directors, chief executives or their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Additional Information

(B) PARTICULARS OF THE DIRECTORS' SERVICE CONTRACTS

As at 30 June 2006, none of the Directors had entered or was proposing to enter into a service contract with the Company or any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(C) DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2006, the interests of the Directors in businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, whether directly or indirectly, with the businesses of the Group were as follows:

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

Notes:

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

Mr Wong Kwong Yu and the Company entered into the Non-competition Undertaking on 29 July 2004, pursuant to which Mr Wong Kwong Yu undertook to the Company that he would not and would procure that the Parent Group would not, among other things, engage in retail sales of electrical appliances and/or consumer electronic products in places in the PRC where the Company had established any retail outlet for the sale of electrical appliances and consumer electronics products under the "GOME Electrical Appliances" trademark, provided that Mr Wong Kwong Yu remains as the controlling shareholder of the Company. The Company undertook to Mr Wong Kwong Yu not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in the PRC in which any member of the Parent Group had established, or was as at 3 June 2004 in the course of establishing, any retail outlet for the sale of electrical appliances and consumer electronic products under the "GOME Electrical Appliances" trade mark. On 21 July 2006, Mr Wong Kwong Yu granted a waiver to the Company from its obligations under the Non-competition Undertaking as summarised above in this paragraph in view of the voluntary conditional offer to acquire all shares of China Paradise Electronics Retail Limited.

(D) DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the 6 months period ended 30 June 2006 was the Company, its subsidiaries or its holding company a party to any arrangements to enable the directors of the Company to acquire shares in or debentures of the Company or any other body corporate.

Additional Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or the chief executive of the Company, as at 30 June 2006, other than the interests and short positions of the Directors or the chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

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

Name of Shareholder	Nature	Number of ordinary shares held	Approximate % of Shareholding
Warburg Pincus & Co. (note 1)	Long position	176,680,630	7.71%
Warburg Pincus Partners LLC (note 1)	Long position	176,680,630	7.71%
Warburg Pincus IX LLC (note 1)	Long position	176,680,630	7.71%
Warburg Pincus Private Equity IX, L.P. (note 1)	Long position	176,680,630	7.71%
Real Success International Limited (note 1)	Long position	151,496,788	9.22%
Morgan Stanley (note 2)	Long position	169,492,715	7.39%
	Short position	61,846,612	2.70%
JPMorgan Chase & Co. (note 3)	Long position	124,020,330	5.41%
	Lending pool	65,537,330	2.86%

Notes:

- Warburg Pincus Private Equity IX, L.P is part of the Warburg Pincus Funds. The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the shares held by the Warburg Pincus Funds, which includes Warburg Pincus IX LLC, Warburg Pincus Private Equity IX, L.P. These are derivative interests and are held as to 151,496,788 Shares by Real Success International Limited and as to 25,183,842 Shares by Sound Idea International Limited, both of which are wholly-owned subsidiaries of Warburg Pincus Private Equity IX, L.P.
- Morgan Stanley was interested in these Shares through its interests in controlled corporations. Of these shares, long position in 110,892,406 shares were held by Morgan Stanley Investment Management Company, long position in 12,954 shares and short position in 33,000 shares were held by Morgan Stanley Dean Witter Hong Kong Securities Limited, long position in 29,081,205 shares and short position in 32,426,618 shares were held by Morgan Stanley & Co International Limited, long position in 5,939,000 shares and short position in 5,939,000 shares were held by MSDW Equity Finance Services I (Cayman) Limited, long position in 23,485,743 shares and short position in 23,447,994 shares were held by Morgan Stanley & Co. Incorporated and long position in 81,407 shares were held by Morgan Stanley Capital Services Inc., all of which are either controlled or indirectly controlled corporations of Morgan Stanley.

Additional Information

3. JPMorgan Chase & Co. was interested in 3,643,000 shares, 54,840,000 shares and 65,537,330 shares in its capacity as beneficial owner, investment manager and custodian corporation/approved lending agent, respectively. JPMorgan Chase Co was interested in such shares through its interests in controlled corporations. Of these shares, 67,498,330 shares were held by JPMorgan Chase Bank, N.A., 11,968,000 shares were held by J.P. Morgan Investment Management Inc., 39,903,000 shares were held by JPMorgan Asset Management (UK) Limited, 1,008,000 shares were held by JPMorgan Asset Management (Canada) Inc., 3,643,000 shares were held by J.P. Morgan Whitefriars Inc., all of which are either controlled or indirectly controlled corporations of JPMorgan Chase & Co.

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

As at 30 June 2006, there was no other person (other than the Directors and the chief executive of the Company), who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Additional Information

OTHER INFORMATION

INTERIM DIVIDENDS

At a meeting held on 17 August 2006, the Board of Directors has declared to pay an interim dividend of 4.2 HK cents (equivalent to approximately RMB4.3 fen) (six months ended 30 June 2005: 4.2 HK cents (equivalent to approximately RMB4.4 fen)) per share of the Company for the six months ended 30 June 2006. The interim dividend will be paid on 15 September 2006 to those shareholders whose names appear on the Register of Members of the Company on 8 September 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 6 September 2006 to 8 September 2006, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Abacus Share Registrars Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong no later than 4:00 p.m. on 5 September 2006.

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

During the six months ended 30 June 2006, the Company had not redeemed and neither the Company nor any of its subsidiaries has purchased, sold any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the six months ended 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee, comprising the three independent non-executive directors of the Company, has reviewed and discussed with the management the Company's unaudited consolidated interim financial report for the six months ended 30 June 2006 which has been reviewed by Ernst & Young, the external auditors, and the internal control and financial reporting matters.

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS:

WONG Kwong Yu (*Chairman*)

DU Juan

LAM Pang

NG Kin Wah

NON-EXECUTIVE DIRECTOR:

SUN Qiang Chang

INDEPENDENT NON-EXECUTIVE DIRECTORS:

SZE Tsai Ping, Michael

CHAN Yuk Sang

Mark C. GREAVES

COMPANY SECRETARY

WOO Ka Biu, Jackson

AUTHORIZED REPRESENTATIVES

DU Juan

LAM Pang

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

The Hongkong & Shanghai Banking Corporation Limited

Hang Seng Bank Limited

AUDITORS

Ernst & Young

Certified Public Accountants

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The Center

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PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

14 Bermudiana Road

Hamilton

Bermuda

SHARE REGISTRAR IN HONG KONG

Abacus Share Registrars Limited

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