

GO! GO! GO! **GOME**
国美电器

國 美 電 器 控 股 有 限 公 司

GOME ELECTRICAL APPLIANCES HOLDING LTD.

Incorporated in Bermuda with Limited Liability (Stock code : 0493)

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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

WONG Kwong Yu *Chairman*
DU Juan
ZHANG Zhi Ming
LAM Pang
NG Kin Wah

Independent Non-executive Directors:

SZE Tsai Ping, Michael
CHAN Yuk Sang
CHEN Huai

COMPANY SECRETARY

TANG Cecilia

AUTHORISED REPRESENTATIVES

LAM Pang
TANG Cecilia

PRINCIPAL BANKERS

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

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE

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

PRINCIPAL SHARE REGISTRARS

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

SHARE REGISTRARS IN HONG KONG

Abacus Share Registrars Limited
G/F., Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

CONDENSED COMBINED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 September 2004
(Expressed in Hong Kong dollars)

	Notes	Six months ended 30 September	
		2004 Unaudited \$'000	2003 Unaudited \$'000
Revenue	3(a)	6,102,813	4,205,451
Cost of sales		(5,490,890)	(3,901,899)
GROSS PROFIT		611,923	303,552
Other operating income	3(b)	254,546	150,783
Selling and distribution expenses		(322,396)	(225,033)
Administrative expenses		(85,133)	(46,576)
Other operating expenses		(43,159)	(17,371)
PROFIT FROM OPERATING ACTIVITIES	5	415,781	165,355
Interest expense	6	(326)	(540)
Interest income	6	14,511	7,113
Share of profit of associate		-	1
PROFIT BEFORE TAXATION		429,966	171,929
Income tax	7	(46,441)	(36,764)
PROFIT BEFORE MINORITY INTERESTS		383,525	135,165
Minority interests		(137,709)	(50,413)
NET PROFIT		245,816	84,752
EARNINGS PER SHARE	20		
Basic		15 cents	5 cents
Diluted		15 cents	NA

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

CONDENSED COMBINED BALANCE SHEET (UNAUDITED)

As at 30 September 2004

(Expressed in Hong Kong dollars)

	Notes	30 September 2004 Unaudited \$'000	31 March 2004 Unaudited \$'000
NON-CURRENT ASSETS			
Property, plant and equipment		118,300	105,306
Intangible assets	8	2,246	(13,461)
Property under development	9	–	750,441
Investment properties		4,438	4,438
Other investments		–	124
Deferred income tax assets		1,162	1,162
		126,146	848,010
CURRENT ASSETS			
Property project held for sale	9	750,441	–
Other investments		913	804
Margin deposits with brokers and financial institutions		–	64,323
Inventories		1,334,840	784,248
Bills receivable	10	19,967	886
Trade receivables	11	89,856	62,829
Prepayments and other receivables		235,482	82,723
Due from related parties	12	1,020,882	1,039,792
Pledged deposits	13	971,103	761,519
Cash and cash equivalents	13	435,384	337,285
		4,858,868	3,134,409
CURRENT LIABILITIES			
Interest-bearing bank loan		–	9,434
Convertible notes	14	–	24,000
Trade payables and bills payable	15	3,248,077	2,374,243
Customers' deposits, other payables and accruals		373,754	296,408
Due to related parties	16	–	87,044
Current portion of long-term payables	17	75,471	–
Tax payables		60,002	29,926
Deferred income tax liabilities		1,046	1,045
		3,758,350	2,822,100
NET CURRENT ASSETS		1,100,518	312,309
TOTAL ASSETS LESS CURRENT LIABILITIES		1,226,664	1,160,319
Long term payables	17	82,076	157,547
MINORITY INTERESTS		162,888	123,963
NET ASSETS		981,700	878,809
OWNERS' EQUITY		981,700	878,809

CONDENSED COMBINED STATEMENT OF CHANGES IN OWNER'S EQUITY (UNAUDITED)

For the six months ended 30 September 2004
(Expressed in Hong Kong dollars)

	Notes	Issued share capital \$'000	Share premium \$'000	Other reserve \$'000	Statutory reserves \$'000	Mandatory convertible notes \$'000	Retained earnings \$'000	Total \$'000
For the six months ended 30 September 2004:								
At 1 April 2004		283,930	64,242	620	14,517	300,000	215,500	878,809
At 1 April 2004 (As restated for derecognition of negative goodwill, note 8)		283,930	64,242	620	14,517	300,000	231,218	894,527
Net profit for the period		-	-	-	-	-	245,816	245,816
Shares issued upon conversion of								
- Mandatory convertible notes	18(a)	250,000	50,000	-	-	(300,000)	-	-
- Convertible notes	18(b)	20,000	4,000	-	-	-	-	24,000
Share consolidation	18(c)	(540,082)	540,082	-	-	-	-	-
Issue of new shares for Acquisition	18(d)	4,412	-	-	-	-	(4,412)	-
Issue of mandatory convertible notes	19(b)	-	-	-	-	222,944	(222,944)	-
Distribution to owner		-	-	-	-	-	(182,643)	(182,643)
At 30 September 2004		18,260	658,324	620	14,517	222,944	67,035	981,700
For the six months ended 30 September 2003:								
At 1 April 2003		161,830	40,734	620	14,609	-	334,179	551,972
Net profit for the period		-	-	-	-	-	84,752	84,752
Placing of shares		32,300	5,685	-	-	-	-	37,985
Shares issued upon conversion of convertible notes		42,500	8,500	-	-	-	-	51,000
At 30 September 2003		236,630	54,919	620	14,609	-	418,931	725,709

CONDENSED COMBINED STATEMENT OF CASH FLOW (UNAUDITED)

*For the six months ended 30 September 2004
(Expressed in Hong Kong dollars)*

	Six months ended 30 September	
	2004	2003
	Unaudited	Unaudited
	\$'000	\$'000
Net cash inflow from operating activities	334,397	1,132,086
Net cash outflow from investing activities	(226,473)	(739,710)
Net cash outflow from financing activities	(9,825)	(455,237)
Net increase/(decrease) in cash and cash equivalents	98,099	(62,861)
Cash and cash equivalents as at 1 April	337,285	439,525
Cash and cash equivalents as of 30 September	435,384	376,664

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

30 September 2004

(Expressed in Hong Kong dollars)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF THE INTERIM FINANCIAL REPORT

GOME Electrical Appliances Holding Limited (formerly China Eagle Group Company Limited and hereinafter referred to as the "Company"), was incorporated in Bermuda with limited liability. Its shares have been 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. On 10 August 2004, it changed its name from China Eagle Group Company Limited ("China Eagle") to GOME Electrical Appliances Holding Limited.

Pursuant to an acquisition agreement dated 3 June 2004, the Company acquired all the issued shares of Ocean Town Int'l Inc. ("Ocean Town") from Gome Holdings Limited, a company beneficially owned by Mr. Wong Kwong Yu ("Mr. Wong"), for a total consideration of approximately \$8.3 billion. This consideration was satisfied i) as to \$243,500,000 by the issue of approximately 44.1 million ordinary shares; and ii) as to \$7,031,400,000 by the issue of the First Convertible Note and to \$1,026,900,000 by the issue of the Second Convertible Note (as further explained in note 19(b) of this interim financial report). On completion of the acquisition transaction ("Acquisition") on 29 July 2004, the Company became the holding company of Ocean Town.

Ocean Town was incorporated in the British Virgin Islands on 28 December 2001 with limited liability and has not carried out any business since the date of its incorporation other than holding a 65% equity interest in Gome Appliance Co., Ltd. ("Gome Appliance"), a company registered in the People's Republic of China (the "PRC") on 2 April 2003 and beneficially owned by Mr. Wong, pursuant to the Reorganisation as defined below.

Gome Appliance is engaged in the retailing of electrical appliances and consumer electronic products in designated cities within the PRC (the "Relevant Business"), including Beijing, Tianjin, Langfang, Chongqing, Chengdu, Zigong, Xi'an, Kunming, Shenzhen, Fuzhou, Guangzhou, Wuhan, Shenyang, Jinan, Zibo, Qingdao, Weifang, Foshan, Dongguan, Huizhou, Fuqing and Zhongshan. The Relevant Business was previously operated by 19 companies registered in the PRC (the "Relevant Companies"), which are beneficially owned by Mr. Wong. Pursuant to a group reorganisation (the "Reorganisation"), during the period from 2 April 2003 to 6 April 2004, the following were transferred to Gome Appliance:

- 1) All the relevant assets, liabilities and the Relevant Business in Beijing as owned by Beijing Gome Electrical Appliance Co., Ltd., one of the Relevant Companies, with the exclusion of certain assets and liabilities which were unrelated to the Relevant Business or which were untransferable; and
- 2) The entire equity interests in each of the remaining 18 Relevant Companies.

The above transfers were settled by total cash consideration amounting to approximately HK\$448 million which was determined based on net asset values transferred to Gome Appliance as at the respective transfer dates.

In addition to the above, pursuant to the Reorganisation, with effect from 20 April 2004, a 65% equity interest in Gome Appliance was transferred to Ocean Town for a total cash consideration of approximately \$227 million, which was determined based on the net asset value of Gome Appliance and its subsidiaries as at the transfer date. Gome Appliance was transformed into a Sino-foreign equity joint venture. Ocean Town then became the holding company of Gome Appliance and its subsidiaries (hereinafter referred to as the "Ocean Town Group").

As the Company, Ocean Town, Gome Appliance and the Relevant Companies were under the common control of Mr. Wong, the acquisitions of Ocean Town by the Company have been reflected in the accompanying interim financial report as a combination of entities under common control in a manner similar to a pooling of interests. Accordingly, the operating results of the Ocean Town Group for the period ended 30 September 2003 and 2004 and the relevant assets and liabilities as at 31 March 2004 and 30 September 2004, have been included in the condensed combined income statement and condensed combined balance sheets of the Group. Upon the completion of the above acquisition, the principal activities of the Company and its subsidiaries (the "Group") are retailing of electrical appliances and consumer electronic products in designated cities within the PRC and securities broking and investment and general trading in the Hong Kong Special Administrative Region ("Hong Kong").

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

The results of operations previously reported by the Group for the six months ended 30 September 2003 have been restated to include the results of Ocean Town Group as set out below:

	The Group (As previously reported) \$'000	Ocean Town Group \$'000	The Group (Combined) \$'000
Results of operations:			
Revenue	2,283	4,203,168	4,205,451
Profit/(loss) from operating activities	(8,415)	173,770	165,355
Profit/(loss) attributable to shareholders	(8,925)	93,677	84,752

The financial position and shareholders' equity as at 31 March 2004 previously reported by the Group have been restated to include the assets and liabilities of the Ocean Town Group and set out as below:

	The Group (As previously reported) \$'000	Ocean Town Group \$'000	The Group (Combined) \$'000
Financial position:			
Current assets	224,798	2,909,611	3,134,409
Total assets	971,088	3,011,331	3,982,419
Current liabilities	160,545	2,661,555	2,822,100
Total liabilities	318,092	2,661,555	2,979,647
Shareholders' equity	651,449	227,360	878,809

2. SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board ("IASB"). This interim financial report reflect the unaudited financial position of the Group as at 30 September 2004 and the unaudited results of operations and cash flows of the Group for the six months then ended, prepared under the basis of presentation of the interim financial report set out in section 1 above.

Prior to the year ended 31 March 2004, the financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. As a result of the increase in the size and geographic spread of the Group, the directors decided to switch from HKFRS to International Financial Reporting Standards ("IFRS") promulgated by the IASB for the financial statements of the Group for the year ended 31 March 2004. The adoption of IFRS has not resulted in any significant changes in the accounting policies of the Company or in the quantification of the Company's assets and liabilities when compared with accounting principles generally accepted in Hong Kong.

Statement of compliance

The accounting policies adopted in the Company's 2003 annual financial statements have been consistently applied by the Group in preparing this interim financial report and are set out as follows:

Basis of preparation

The financial statements are presented in Hong Kong dollars, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: Derivative financial instruments, investments held for trading and investment property.

Changes in accounting policies

IFRS 3 'Business Combinations', IAS 36 'Impairment of Asset' and IAS 38 'Intangible Assets' are applicable from 1 April 2004.

The adoption of IFRS 3 has resulted in the Group, from 1 April 2004, ceasing annual goodwill amortisation and to test for impairment of goodwill annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). The transitional provisions of IFRS 3 have required the Group at 1 April 2004 to eliminate the carrying amount of the accumulated amortisation of goodwill of \$92,000 with a corresponding adjustment to goodwill. Additionally, the carrying amount of negative goodwill at 1 April 2004 of \$15,718,000 has been derecognised with a corresponding adjustment to the opening balance of retained earnings.

The adoption of IAS 36 and IAS 38 has had no significant impact on this interim financial report.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity and are eliminated against the investments in associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions

The functional and presentation currency of the Group is the Hong Kong dollars (HK\$). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

The functional currency of the Group's PRC subsidiaries is Renminbi. As at the reporting date, the assets and liabilities of these PRC subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

Property, plant and equipment

- (i) Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

- (ii) *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense is incurred.

- (iii) *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately. Leasehold land is depreciated over the terms of the leases. Buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases. Leasehold improvements are depreciated on a straight-line basis over the remaining term of the lease.

The estimated useful lives of fixed assets are as follows:

Land and buildings	over the remaining lease terms
Leasehold improvements	over the remaining lease terms
Other fixed assets	5-15 years
Computer equipment	4 years

Properties under development

Land and buildings other than investment properties are carried at purchase price less impairment losses.

Property development project held for sale

Property development project held for sale is shown at the lower of cost and net realizable value.

Goodwill and negative goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. As further explained under a header "Changes in accounting policies" above, goodwill on acquisitions after 31 March 2004 is not amortised and is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with finite lives.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment annually and in case of intangible assets with an indefinite useful life, whenever there is an indication that intangible asset may be impaired, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

The trading right in Hong Kong Futures Exchange Limited is stated in the balance sheet at cost less accumulated amortisation and impairment losses. Amortisation of the trading rights is charged to the income statement on a straight-line basis over its estimated useful life of 10 years.

Investments

(i) Investments in equity securities

Investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Investments held for trading are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

(ii) Investment property

Investment property is stated at fair value. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in the significant accounting policy "Revenue (ii)".

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less any allowances for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Consumables are stated at cost less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments, net of attributable transaction costs. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

Mandatory convertible notes are those convertible notes that are not redeemable and are mandatorily convertible to share capital. Mandatory convertible notes are classified as equity in the financial statements.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost under redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events for which existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or that the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the interim financial report. When a change in the probability of an outflow occurs so that an outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events for which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the interim financial report when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The following temporary differences are not provided for: Goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Trade and other payables

Trade and other payables are stated at cost.

Provisions

A provision is recognised in the balance sheet when the Group has an (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

(i) Sales of goods

Revenue from the sales of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

- (ii) *Rental income*
Rental income from investment property is recognised in the income statement on a straight-line basis over the terms of the leases. Lease incentives granted are recognised as an integral part of the total rental income.
- (iii) *Commission income from brokerage services*
Commission and brokerage on dealing in securities and futures contracts is recognised when the relevant contract is executed.
- (iv) *Trading gains on investments*
Realized gains and losses arising from the trading in forex and futures contracts are accounted for in the year in which the positions are closed as the difference between the net sales proceeds and the carrying amount of the contracts. Open positions are valued at market rate with unrealized gains and losses included in the consolidated income statement.
- Revenue from the sale of listed securities is recognised when the relevant contract is executed.
- (v) *Income from suppliers*
Income from suppliers comprises promotion income, management fee income, display space leasing fees and product listing fees. Revenue is recognised according to the underlying contract terms and as these services are provided in accordance therewith.
- (vi) *Management fee income from a related party and contractors for air-conditioner installations*
Revenue is recognised as such services are provided.
- (vii) *Royalty income from franchise stores*
Revenue is recognised on a time proportion basis over the franchise period.
- (vii) *Interest*
Revenue is recognised as the interest accrues (taking into account the effective yield on the relevant asset).

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the benchmark accounting treatment under IAS23.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the combined income statement as incurred.

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the combined statement of operations as incurred.

- (iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Related parties

For the purposes of this interim financial report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3. REVENUE AND OTHER OPERATING INCOME

- (a) The principal activities of the Group comprise the retailing of electrical appliances and consumer electronic products, property development and investment, securities broking and investment and general trading.

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the commission on securities and commodity broking and rental income. The amount of each significant category of revenue recognised in revenue during the period is as follows:

	Six months ended 30 September	
	2004	2003
	\$'000	\$'000
Sales of electrical appliances and consumer electronic products	6,097,368	4,203,174
Others	5,445	2,277
	6,102,813	4,205,451

- (b) Other operating income comprises the following:

		Six months ended 30 September	
		2004	2003
	Notes	\$'000	\$'000
Income from suppliers:			
Promotion income		92,669	63,523
Management fee income		23,748	21,058
Display space leasing fees		17,602	15,472
Product listing fees		12,818	11,463
Management income from Parent Group	22	36,683	-
Management fees for air-conditioner installations		28,644	21,726
Royalty income from franchise stores		208	1,768
Other income	(i)	20,336	-
Others		21,838	15,773
		254,546	150,783

- (i) Other income represents an amount payable to a former related party that was waived during the period.

4. SEGMENT INFORMATION

- (i) During the period, over 90% of the Group's revenue and results were derived from the retailing of electrical appliances and consumer electronic products and therefore no business segment analysis has been presented.
- (ii) No geographical segment analysis has been presented as the Group's operations were substantially carried out in the PRC. During the period, over 90% of the Group's revenue was derived from customers in the PRC.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Cost of inventories recognised as expenses	5,490,890	3,901,899
Depreciation	16,583	9,249
Loss on disposal of fixed assets	571	–
Minimum lease payments under operating leases in respect of land and buildings	102,680	58,890
Loss on trading of securities, foreign exchange and futures contracts	22,981	1,084
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	87,736	65,586
Pension costs	7,704	6,173
Social welfare and other costs	11,126	9,310
	106,566	81,069

6. FINANCE (COST)/INCOME

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Bank interest expense	(326)	(540)
Bank interest income	7,302	7,082
Other interest income	7,200	32
Net foreign exchange gain	9	(1)
Interest income	14,511	7,113
	14,185	6,573

7. INCOME TAX

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Current – PRC	46,441	36,764
Deferred	–	–
	46,441	36,764

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 are subject to CIT at a rate of 33% on their respective taxable income. The determination of current and deferred income tax was based on the enacted tax rates.

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for each of the six months ended 30 September 2004 and 2003.

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Profit before tax	429,966	171,929
Tax on profit before tax at 33%	141,889	56,737
Tax effect of non-deductible expenses	20,824	4,622
Tax effect of preferential income tax rate	(116,272)	(24,595)
Income tax expense	46,441	36,764

8. INTANGIBLE ASSETS

As at the balance sheet date, the group has the following intangible assets:

	30 September 2004 \$'000	31 March 2004 \$'000
	Negative goodwill	-
Positive goodwill	2,126	2,126
Exchange trading right	120	131
	2,246	(13,461)

- (i) The transitional provisions of IFRS 3 have required the Group at 1 April 2004 to eliminate the carrying amount of the accumulated amortisation of goodwill of \$92,000 with a corresponding adjustment to goodwill. Additionally, the carrying amount of negative goodwill at 1 April 2004 of \$15,718,000 has been derecognised with a corresponding adjustment to the opening balance of retained earnings.

9. PROPERTY UNDER DEVELOPMENT AND PROPERTY PROJECT HELD FOR SALE

The balance represented the Group's cost of investment in a property development project located at Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the "Property Project"), which amounted to approximately \$745,283,000 and included capitalized interest costs and other costs amounted to approximately \$5,158,000. Upon the completion of the application procedures and the payment of land premium of RMB470 million to the relevant PRC authorities, the Company would obtain the land use rights of the Property Project. The land is in initial stage of development.

During the current period, the directors have decided that no further commitments would be made to such property investment beyond those payable to Beijing Bus Company Limited, as set out in note 17 to this interim financial report and that property will be held for sale. The balance was reclassified to property project held for sale to reflect this change of intention.

10. BILLS RECEIVABLE

An aged analysis of the bills receivable, net of provision for bad and doubtful debts, is as follows:

	30 September 2004 \$'000	31 March 2004 \$'000
	Outstanding balance, aged:	
Within three months	19,967	886

11. TRADE RECEIVABLES

The trade receivables are analysed as follows:

	30 September 2004 \$'000	31 March 2004 \$'000
Securities and equity options transactions:		
Cash clients	17,405	13,233
Margin clients	48,101	22,360
Hong Kong Futures Exchange Clearing Corporation Ltd.	21,508	22,619
Others	2,842	4,617
	89,856	62,829
Outstanding balance, aged:		
Within three months	89,856	62,829

12. DUE FROM RELATED PARTIES

Included in the balances is approximately \$745,931,000 representing the remaining unpaid balance of the total amount of approximately \$1,026.9 million owed by Beijing Gome to Gome Appliance as at the date of Acquisition (the "Beijing Gome Debt"). Interest is charged at 6.8% per annum in respect of 65% of the unpaid balance of the Beijing Gome Debt. Security for Beijing Gome Debt was provided in the following manner: (1) the Second Convertible Note; (2) dividend derived from the 35% interest in Gome Appliance beneficially owned by Mr. Wong; and (3) the proceeds from the placing of certain of the Company's ordinary shares owned by Mr. Wong. The Beijing Gome Debt was fully settled subsequent to 30 September 2004 (note 24).

The remaining balances are trading in nature, and are interest-free with no fixed terms of repayment.

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 September 2004 \$'000	31 March 2004 \$'000
Bank balances	435,384	337,285
Time deposits	971,103	761,519
	1,406,487	1,098,804
Less: Time deposits pledged for bills payable	(971,103)	(761,519)
Cash and cash equivalents	435,384	337,285

14. CONVERTIBLE NOTES

On 20 April 2004, convertible notes totalling \$24,000,000, were converted into 200,000,000 ordinary shares of \$0.10 each. The conversion price was \$0.12 per ordinary shares. The net proceeds over the par value of the shares issued resulted in a share premium of HK\$4,000,000.

15. TRADE PAYABLES AND BILLS PAYABLE

	30 September 2004 \$'000	31 March 2004 \$'000
Trade payables and bills payable arising from retailing operations	3,210,993	2,330,242
Trade payables in dealing with futures and option transactions	37,084	44,001
	3,248,077	2,374,243
Outstanding balance, aged:		
Within three months	2,179,551	1,504,464
Within three to six months	1,053,374	858,784
Over six months	15,152	10,995
	3,248,077	2,374,243

16. DUE TO RELATED PARTIES

The balances as at 31 March 2004 were unsecured, interest-bearing at 0.4868% per annum and had no fixed terms of repayment.

17. LONG TERM PAYABLES

The amount represents the balance of the consideration of \$157,547,000 payable to Beijing Bus Company Limited in respect of the acquisition of the property project described in note 9 above. Pursuant to the transfer contract and the supplementary contracts, an amount of \$75,471,000 would be settled on or before 30 September 2005 and the remaining balance of \$82,076,000 would be settled on or before 30 September 2006.

18. SHARE CAPITAL

	Notes	Number of shares 000	\$'000
<i>Authorised:</i>			
Ordinary shares of HK\$0.1 each		50,000,000	5,000,000
<i>Issued and fully paid:</i>			
At 1 April 2004		2,839,304	283,930
Share issued upon conversion of mandatory convertible notes	(a)	2,500,000	250,000
Share issued upon conversion of convertible notes	(b)	200,000	20,000
Before share consolidation		5,539,304	553,930
Consolidation of 40 ordinary shares into one consolidated share	(c)	138,483	13,848
Share issued for Acquisition	(d)	44,117	4,412
At 30 September 2004		182,600	18,260

Notes:

- (a) On 6 April 2004, mandatory convertible notes totalling \$300,000,000 were converted into 2,500,000,000 ordinary shares of \$0.10 each. The conversion price was \$0.12 per ordinary share. The net proceeds over the par value of the shares issued resulted in a share premium of \$50,000,000.
- (b) On 20 April 2004, convertible notes totalling \$24,000,000, were converted into 200,000,000 ordinary shares of \$0.10 each. The conversion price was \$0.12 per ordinary share. The net proceeds over the par value of the shares issued resulted in a share premium of \$4,000,000.

- (c) On 29 July 2004, the shareholders of the Company approved the consolidation of shares on the basis of 40 then existing ordinary shares of the Company into 1 new ordinary share.
- (d) In connection with the Acquisition as set out in note 1 to this interim financial report, the Company issued approximately 44.1 million ordinary shares of \$0.10 each as part of the consideration.

19. MANDATORY CONVERTIBLE NOTES

	30 September 2004	31 March 2004
	'000	'000
<i>Notes</i>	(b)	(a)
Mandatory convertible notes	222,944	300,000

- (a) Pursuant to an acquisition agreement dated 6 February 2004 regarding the acquisition of the entire issued share capital of Bestly Legend Limited for a consideration of \$300,000,000, convertible notes totalling \$300,000,000 were issued to Shinning Crown Holding Inc.

On 6 April 2004, mandatory convertible notes totalling \$300,000,000, were converted into 2,500,000,000 ordinary shares of \$0.10 each. The conversion price was \$0.12 per ordinary share. The net proceeds over the par value of the shares issued resulted in a share premium of \$50,000,000.

- (b) In connection with the Acquisition as set out in note 1 to this interim financial report, the First Convertible Note and Second Convertible Note totaling \$222,944,000 were issued to companies beneficially owned by Mr. Wong as part of the considerations. The total face values of such mandatory convertible notes are \$8,058.3 million and are due in 2007. The conversion rights under the Second Convertible Note are only exercisable after the repayment of the Beijing Gome Debt. Based on the conversion price of HK\$5.52 per share, approximately 1,459.8 million ordinary shares (1,273.8 million for First Convertible Note and 186 million for Second Convertible Note) will be issued upon the full conversion of the First Convertible Note and Second Convertible Note.

As the Acquisition is accounted for as a combination of entities under common control, the equity interest of Ocean Town acquired by the Company is accounted for at historical amounts in a manner similar to a pooling of interests. The aforesaid considerations for the Acquisition is treated as an equity transaction and the value of the consideration shares (note 18(d)) and the First and Second Convertible Notes issued were stated at the net asset values of the Ocean Town Group.

On 4 October 2004, aggregate of \$6,597,605,480, comprising the entire amount of the First Convertible Note and a partial amount of the Second Convertible Note were converted into 1,195,218,384 ordinary shares of \$0.10 each (note 24).

20. EARNINGS PER SHARE

- (a) The calculation of basic earnings per share during the period was based on the net profit attributable to ordinary shareholders for the period of approximately \$245,816,000 (period ended 30 September 2003: \$84,752,000) and a weighted average number of potential ordinary share outstanding during the period of 1,641.8 million (period ended 30 September 2003: 1,552.1 million). The weighted average number of potential ordinary shares outstanding during the periods was adjusted for i) the effect of share consolidation; ii) approximately 1,503 million ordinary shares outstanding during the period as if 44.1 million ordinary shares and 1,459.8 million ordinary shares that attributable to the conversion of the First Convertible Note and Second Convertible Note had occurred at the beginning of the periods presented.

- (b) **Diluted earnings per share**

The calculation of diluted earnings per share during the period was based on the net profit attributable to ordinary shareholders for the period of approximately \$245,859,000 and a weighted average number of potential ordinary shares outstanding during the period of 1,642 million. The Company had no dilutive potential ordinary shares for the period ended 30 September 2003.

21. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 September 2004 not provided for in the interim financial report were as follows:

	30 September 2004 \$'000	31 March 2004 \$'000
Authorised but not contracted for:		
– Acquisition of property under development	–	443,396

The balance of capital commitments as at 31 March 2004 represents the commitment for payment of a land premium of HK\$443,396,000 to the relevant PRC authorities in respect of the land use right attributable to the Property Project (note 9).

During the current period, the directors have determined that no further commitments will be made to such property investment beyond those payable to Beijing Bus Company Limited, as set out in note 17 to this interim financial report.

(b) Investment commitments

	30 September 2004 \$'000	31 March 2004 \$'000
Commitments in respect of the acquisition of a 65% equity interest in Gome Appliance	–	227,358

As part of the Reorganisation, an agreement dated 8 February 2004 was entered into between Ocean Town and Beijing Eagle Yi Fu Network Technologies Co., Ltd. ("Yi Fu"), a PRC company beneficially owned by Mr. Wong, pursuant to which Ocean Town agreed to acquire a 65% equity interest in Gome Appliance from Yi Fu for a total cash consideration of RMB227,358,491 payable on or before 20 July 2004.

Ocean Town had fully settled the outstanding consideration in June 2004.

(c) Lease commitment

The Group had the following minimum lease payments under non-cancelable operating leases falling due as follows:

	30 September 2004 \$'000	31 March 2004 \$'000
Within one year	234,327	178,087
In the second to fifth years, inclusive	773,725	634,242
After five years	143,962	146,042
	1,152,014	958,371

22. RELATED PARTY TRANSACTIONS

In addition to such transactions and balances which are disclosed elsewhere in this interim 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 and other companies which are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "Gome Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong. Beijing Xinhengji is owned by the family member of Mr. Wong.

Continuing transactions:

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
A) Sales to the Parent Group <i>(note (i) below)</i>	34,489	77,737
B) Purchases from the Parent Group <i>(note (i) below)</i>	(956,134)	(3,677)
C) Provision of management and purchasing services to the Parent Group <i>(note (ii) below)</i>	36,683	–
D) Rental expenses to Beijing Xinhengji <i>(note (iii) below)</i>	(1,596)	–
E) Sub-lease income from audio and visual stores of Parent Group <i>(note (iv) below)</i>	4,190	–

Notes:

- (i) During the current periods, the sales 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 fee and purchasing service fee for the six months ended 30 September 2004 was charged based on 0.75% and 0.9%, respectively, of the total turnover of the Parent Group for the six months ended 30 September 2004, pursuant to a purchasing service agreement and a management agreement entered into between the Group and the Parent Group.
- (iii) On 20 December 2003, the Group entered a rental agreement with Beijing Xinhengji, to lease the properties for a term of two years at an annual rental of \$3,066,038. In the opinion of the directors, the rental has been determined with respect to the prevailing market rental of offices within the same district.
- (iv) The Parent Group has set up counters in the retail outlets operated by the Group for selling audio and visual products. The Parent Group has entered into audio visual products counters sub-lease agreements with each of the individual outlets of the Group. According to the sub-lease agreements, the rent is charged at 1) approximately \$11.3 per square metre per day; and 2) 5.0% of the total revenue generated from the sales of the audio and visual products.

Discontinuing transactions:

	Six months ended 30 September	
	2004 \$'000	2003 \$'000
Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of – Bills payable (note i)	2,555,295	2,132,360
Interest income on Beijing Gome Debt (note (12))	5,580	–

Note:

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

23. CONCENTRATION OF RISK

The Group is exposed to the following risks as further explained below.

(i) Credit risk

The Group's cash and cash equivalents are mainly deposited with banks in the PRC.

The trade and other receivables included in the financial information 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.

(ii) Interest rate risk

The Group has no other loans except for the bills payable and as a result, it has no significant interest rate risk.

(iii) Foreign currency transactions risk

The Group's businesses are principally conducted in Renminbi which cannot be freely exchanged into foreign currencies. As at 30 September 2004, substantially all of the Group's assets and liabilities were denominated in Renminbi.

(iv) PRC tax risk

The Group realized a significant amount of tax benefits during the relevant periods through utilizing the preferential income tax rates and the income tax exemption. These preferential tax treatments were available to the Group pursuant to the PRC tax rules and regulations, which are subject to the approval and assessment on related party transaction from the relevant PRC tax authorities.

24. POST BALANCE SHEET EVENTS

On 4 October 2004, the First Convertible Note and part of the Second Convertible Notes, were converted into 1,195,218,384 ordinary shares of \$0.10 each. Mr. Wong then placed the above ordinary shares with several institutional investors. The proceeds from such placements were used to settle the Beijing Gome Debt. (notes 12)

Save as disclosed above, no other significant events took place subsequent to 30 September 2004.

25. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

This unaudited interim financial report was approved and authorised for issue by the board of directors on 29 November 2004.

INDEPENDENT REVIEW REPORT OF THE AUDITORS

To the Board of Directors

GOME Electrical Appliances Holding Limited
(Formerly “China Eagle Group Company Limited”)

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2004 set out on pages 3 to 22.

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 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 of the Company.

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 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 months ended 30 September 2004.

Ernst & Young
Certified Public Accountants

Hong Kong
29 November 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Operation review

Group review

Following the acquisition of 65% interest of the electrical appliances retail business in the PRC under the trading name, "GOME", in July this year at a total consideration of around HK\$8.3 billion by issuing of share capital of HK\$243.5 million and mandatory convertible notes of approximately HK\$8.1 billion, the Group has successfully transformed into the largest retail chain operator of electrical appliances and consumer electronic products in the PRC with 96 outlets by that time. Currently, there are 56 outlets which are not under the Group's control but they are operating in different locations and not in competition with the Group. Given the relevant statistics indicating an encouraging trend of improving living standards and increasing household consumption in the PRC over the past few years, the management of the Group believes that there is enormous growth potential in the retail market of electrical appliances in the PRC. The acquisition put the Group in a premium position to participate in the retail market in the PRC. Accordingly, the name of the Company was changed from "China Eagle Group Company Limited" to "GOME Electrical Appliances Holding Limited" in August to reflect the forward move on operation focus of the Group. To further enhance the operating coordination with the newly acquired business, the financial year end date of the Group will also change from 31 March to 31 December with effect from this year.

This is the first interim results of the Group with the inclusion of the electrical appliances retail business. For comparison purpose, all figures and analysis stated in the sections below will include the performance of this newly acquired business for the corresponding periods in both current and previous year.

In the six months' period ended 30 September 2004, turnover of the Group was HK\$6.1 billion, representing an increase of 45% as compared with HK\$4.2 billion in the corresponding period last year. The turnover mainly consisted of income generated from the electrical appliances retail business with less than 1% from securities broking and investment. In fact, it is the intention of the Group to focus its management and financial resources on the PRC retail sector with the aim to maximize growth potential and deliver the best return to shareholders. Net profit for the period amounted to HK\$246 million, increased by HK\$161 million or 190% as compared with last year.

Electrical appliances retail business review

The electrical appliances retail business became the major income stream of the Group subsequent to the acquisition. During the period under review, turnover was HK\$6.1 billion, with significant increase of HK\$1.9 billion, or 45%, as compared with the corresponding period last year. Gross profit margin improved from 7.2% to 10%. Earnings before interest, taxation, depreciation and amortization ("EBITDA") significantly increased to HK\$447 million, a 146% rise as compared with HK\$182 million in the corresponding period last year.

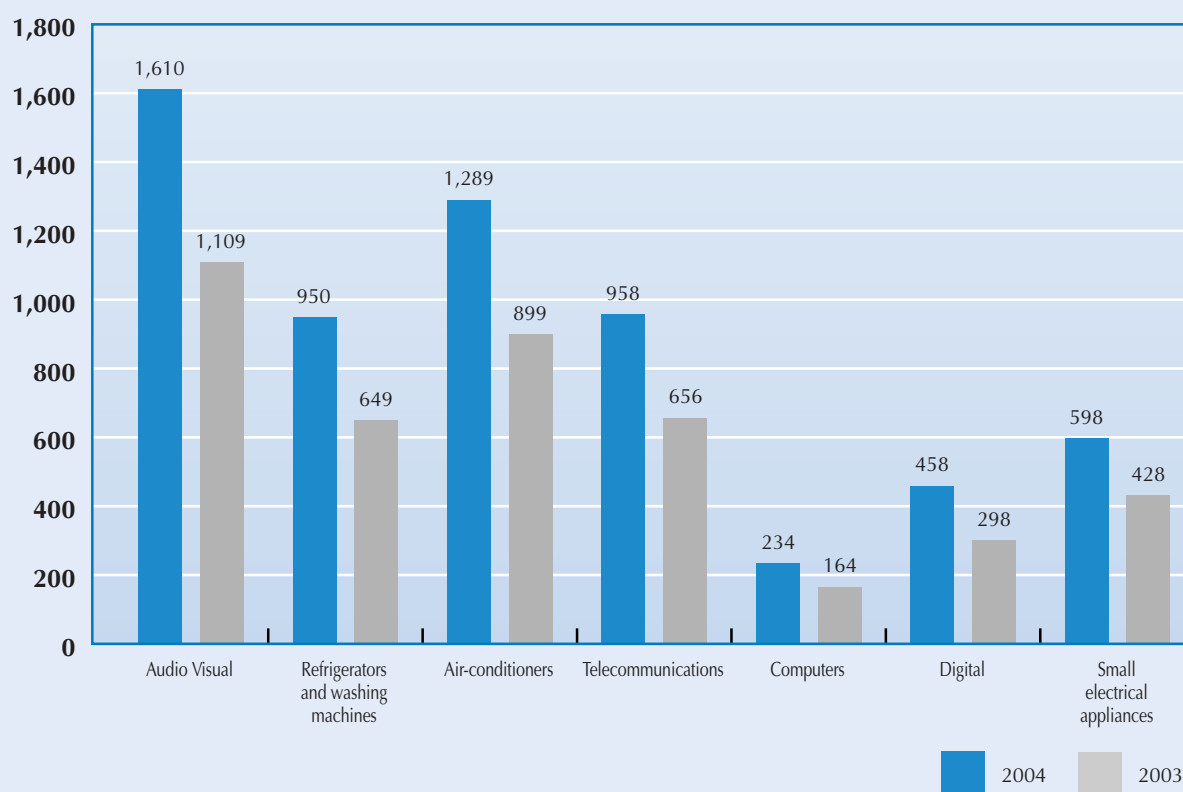
The satisfactory performance of the business is attributable to a number of factors.

Externally, the continuous development of the PRC economy boosted the consumer consumption, which led to a rapid growth in demand on consumer products including electrical appliances and consumer electronic products. As the largest retail chain operator of electrical appliances and consumer electronic products in the PRC, the Group is well positioned to benefit from such economic growth in the PRC market.

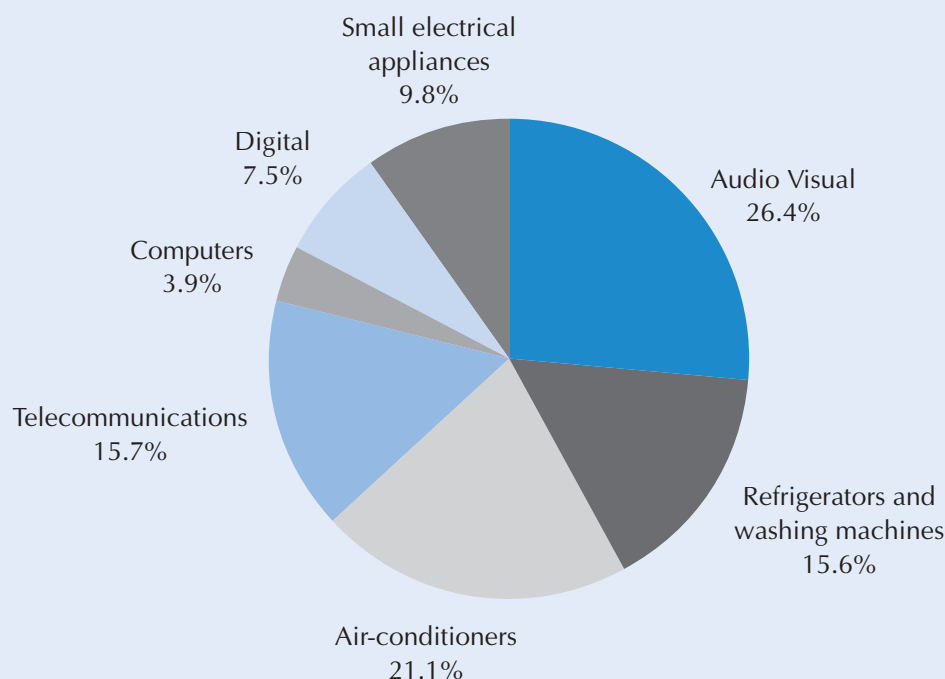
The following chart illustrates the revenue by product category of the Group.

Product category	Six months ended 30 Sep 04		Six months ended 30 Sep 03	
	HK\$'m	% of total revenue	HK\$'m	% of total revenue
Audio visual	1,610	26.4	1,109	26.4
Refrigerators and washing machines	950	15.6	649	15.4
Air-conditioners	1,289	21.1	899	21.4
Telecommunications	958	15.7	656	15.6
Computers	234	3.9	164	3.9
Small electrical appliances	598	9.8	428	10.2
Digital	458	7.5	298	7.1
Total revenue	6,097	100.0	4,203	100.0

HK\$'m Turnover by Product Category for the six months ended 30 Sep



Turnover by Product Category for the six months ended 30 Sep 2004



According to the above table, sales of overall electrical appliances and electronic consumer products were increased and an upward trend is noted in revenue generated from sales of digital and telecommunication products, and the Group has planned to explore the market share for these high end products.

Internally, the management placed strong emphasis on retail chain network expansion so as to leverage benefits of economies of scale and further expand market share. The management believes that telecommunication and digital products will continue to attract significant consumer consumption in the PRC. Thus, the Group has adopted a business plan to establish speciality shop, referred to as “digital shops”, to sell such products in districts with heavy pedestrian traffic. During the period under review, the Group established 12 traditional retail outlets and 18 digital shops. This extensive expansion broadened coverage of the Group’s existing retail network, and the increase in number of outlets can reduce the spread of overheads of the Group and improve the operating margin.

The table below sets out the expansion of the retail network.

	30.9.04	31.12.03	30.09.03
Number of traditional outlets	98	79	71
Number of digital shops	18	–	–
Number of cities covered	22	19	17

The proactive purchasing strategy also attributed to the strong performance of the Group. With the effective retail network covering major cities of the PRC and broad consumer base, the Group can leverage its significant purchasing volume to establish a direct relationship with major manufacturers and suppliers which allowed the Group for cost savings by enjoying more favourable terms and incentive bonus after achieving guaranteed purchase volume. In addition, the Group was also able to obtain exclusive right to sell certain product models and tailored made products based on the latest market trend.

The Group continues to launch effective marketing and promotional campaigns including but not limited to price bulletin published in newspapers, promotional price reduction, daily specials, free gifts and lucky draws. In addition, the Group also co-operated closely with suppliers in certain promotional campaigns so as to boost sales and foster relationship with suppliers and offered competitive pricing to consumers.

Other operating income increased as a result of the combined impact of network expansion and frequent promotional co-operation with suppliers and the management income from the Parent Group. An analysis of other operating income was stated on the following table.

	30.09.04 <i>HK\$m</i>	30.09.03 <i>HK\$m</i>
Promotion income	92.7	63.5
Management fee for promotion	23.7	21.1
Air-conditioner installation fee	28.6	21.7
Product listing fee	12.8	11.5
Display space leasing fee	17.6	15.5
Management Income from Parent Group	36.7	–
Others	42.4	17.5
Total other operating income	254.5	150.8

Inventory turnover was 35 days as at 30 September 2004. It is the Group's policy to maintain an optimal inventory level based on the internal guideline on estimated inventory turnover of 16 days. The significant deviation noted was due to the fact that inventory was ordered and accumulated as at the period end to meet the expected uplift in sales volume during the Golden Week holiday of National Day of the PRC commencing on 1 October 2004.

In conclusion, the significant improvement of the Group's results were attributable to its extensive network expansion, close relationship with suppliers and manufacturers, effective marketing strategy and tight internal control.

Securities broking and investment business review

During the period, commission generated from securities broking business amounting to HK\$6 million. This business remained as one of the operating activities of the Group throughout the period. The increase in commission income was mainly attributable to the recovery of Hong Kong's economy especially in the capital market. The momentum of the market was greatly affected by the attack of Severe Acute Respiratory Syndrome ("SARS") and the depression of the global market during the same period last year. With the introduction of Closer Economic Partnership Arrangement ("CEPA") and the strong economic growth in the PRC, an upward trend is resulted in the Hong Kong's economy as a whole from which the securities broking business directly benefited.

Property development and investment division

The property development and investment business remained inactive during the period. No significant development was undertaken by the Group in respect of property development.

Prospect and outlook

Electrical appliances retail division

After the acquisition of the Target Group, the Group has expressed a clear intention to focus its management and financial resources on development of the electrical appliances and consumer electronic products retail business. With the retail market manifesting enormous growth potential as the PRC economy continues to develop, the management is optimistic about the prospects of the electrical appliance retail business.

While the potential growth of the market is enormous, so is the competition. Despite the fact that the Group is the number one electrical appliances and consumer electronic product retailer, the management will continue to extensively invest and focus on network expansion and strive to identify any possible and practical solutions to improve the profitability of the business.

By improving and expanding the existing network, the management believes that to enlarge the market share, secure and further improve the gross profit margin and operating income as well as to implement tight cost control measures are crucial to the success of the business.

According to the State Information Centre, the trend of growth in electrical appliances and consumer electronic products is expected to continue and the forecasted annual growth in the retail sales of such products will be 11.4% for 2005. Amongst the growth, management believes that telecommunication and digital products will take the lead and the Group has adopted a proactive expansion plan to capture such rapid growth. As mentioned earlier, the Group is devoted to establishing digital shops in districts with significant pedestrian traffic to sell mainly telecommunication, digital and computer products. The key features of such products are their smaller in sizes and high value as compared with traditional electrical appliances such as refrigerators and air-conditioners, etc. Major products carried in the digital shops include mobile phones and accessories, IT products, digital cameras, digital video recorders, MP3, hand-held computers, various small home appliances and electronic consumer products. The traditional outlets, on the other hand, carry a full range of products including bulky white goods such as refrigerators, washing machines and air-conditioners. Focusing on high value products in location with significant consumer flow, the digital shops will attract higher sales volume and improve the operating margin by sharing overheads of the Group. In addition, the establishment of digital shops will enhance the coverage of the existing network and better positioned the Group to serve different consumers. The following table illustrates the expansion plan of the Group.

	By end of 2004	By end of 2005
Number of new stores established –		
– traditional outlets	24	35
– digital shops	30	30

For 2004, the Group is confident of achieving the retail network expansion target as planned. Following the PRC's accession to the WTO, tariffs on foreign products will be reduced and import of high value digital products under foreign brand name is expected to grow in term of volume as well as variety. This will greatly facilitate the development of digital shops in the retail market of the PRC.

To drive sales volume, the Group will have established sizable retail outlets, referred to as "mega stores", with larger floor area of over 15,000 square metres as compared to the traditional outlets of around 3,500 square metres on average by 2006. These mega stores will be opened in cities with higher GDP and population exceeding two million.

As part of the expansion plan to improve the coverage of its existing retail network, the Group will also open new stores in second-tier cities around the major locations of which the Group already has presence. The Group believes that this step forward to the second-tier cities can strengthen the bargaining power of the Group with suppliers benefiting from economies of scale, reducing overheads shared among the Group and thus improve the overall profit margin of the Group.

Regarding the expansion plan of the retail network, the management will focus on location selections as it will have a direct impact on the business performance of the outlets. Detailed feasibility study will be carried out for each new store to ensure the Group's resources will be effectively utilized.

The Group will further streamline and improve its efficiency of its logistic function to reduce costs and facilitate better control on inventory management. Purchasing function will be strengthened to enrich the product variety and establish closer relationship with suppliers which allows the Group to offer competitive pricing and attractive promotional activities to consumers.

The management also believes that an efficient ERP system is critical to the success of the retail business which involves high volume of inventory movement and widespread product lines and product ranges. The Group intends to upgrade the ERP system to allow better exchange of information and to implement a centralized management reporting system to enhance the efficiency and effectiveness of the Group and improve the risk management on group level.

To cope with challenging in managing a widespread retail network, the management recognised the importance of real time data sharing and communication. Video and telephone conference facilities had been installed in most of the regional offices and head offices in Beijing to ensure effective management and timely information flow.

In conclusion, ridden with keen competition, the business environment is challenging. With a solid expansion plan, quick response to ever-changing market demands, the wholehearted commitment of the management in streamlining process and improve communication, the Group will continue to attain remarkable growth in business performance this year. Despite severe competition, management remains optimistic about the prospects of the business.

Securities broking and investment division

Despite the upturn movement in the capital market, there is no further expansion of the securities broking business. As mentioned earlier, it is the intention of the management to focus the resources of the Group on the electrical appliances retail market in the PRC. Accordingly, the scale of operation of the securities broking business will remain unchanged.

Property development and investment division

The property development business is inactive and the Group has no further capital commitment in respect of the property held located in Beijing. The management of the Group has determined not to engage in any property development subsequent to acquisition of the retail network in the PRC. In the meantime, the management is committed to seeking opportunities to maximize the returns to shareholders.

Liquidity and financial resources

Net cash amounted to HK\$1.4 billion, which is 28% higher than that of six months ago. Except for short-term bills payables, which increased by HK\$880 million to HK\$3.2 billion during the six months period, the Group has no other bank borrowings. The increase in bills payables are in line with the increase in revenue which in turn lead to higher purchase volume of the Group.

Very substantial acquisition and connected transactions

In July this year, the Group acquired the entire interest of Ocean Town International Inc. (“Ocean Town”), a company incorporated in the British Virgin Islands which holds 65% of the shareholding of Gome Appliance Company Limited (“Gome Appliance”), a Sino-foreign equity joint venture established under the laws of the PRC, which in turn holds the entire interest of 96 electrical appliances retail outlets in 22 cities in the PRC. The consideration for the acquisition of Ocean Town is RMB8.8 billion (approximately HK\$8.3 billion), satisfied as follows:

1. as to HK\$243.5 million by the allotment and issue of approximately 44.1 million new shares after the capital reorganization consolidating 40 shares into 1 new share;
2. as to approximately HK\$7,031.4 million by the issue of First Convertible Note; and
3. as to approximately HK\$1,026.9 million by the issue of the Second Convertible Note.

The electrical appliances retail network under the brand name “GOME” operated a total of 135 outlets in 37 cities in the PRC as at the acquisition date. However, only 96 outlets in 22 cities (the “Target Group”) were identified by the management of the Group for acquisition while the remaining 39 outlets in 15 cities (the “Parent Group”) remained as they were for the following reasons:

1. the Target Group has a more established track record and hence a stable base for future development; and
2. as compared with the Target Group, the business in the remaining cities is less developed and hence entails higher business risks.

The Target Group and the Parent Group are operated in different locations and thus no direct competition will be imposed. To maximize the competitive advantages in the network operations, the Target Group and the Parent Group are under the same senior management team and have entered in agreements for the following connected transactions:

1. *Transitional Purchasing Service Agreement*

Prior to the acquisition, the Parent Group had entered into purchasing contracts with various suppliers and purchased electrical appliances for both retail outlets under the Parent Group and the Target Group. As a transitional arrangement, the Parent Group and the Target Group has entered into agreement pursuant to which the Parent Group will continue to purchase from those suppliers for the Target Group.

2. *Purchasing Service Agreement*

The Target Group and the Parent Group have entered into agreement pursuant to which the Target Group will provide purchasing services to the Parent Group for a service fee at a rate of 0.9% of the revenue generated from the sales of electrical appliances and consumer electronic products of the Parent Group for a term of 36 months commencing upon completion of the acquisition.

3. *Management Agreement*

The Target Group and the Parent Group have entered into agreement pursuant to which the Target Group will provide management services for the Parent Group for an annual management fee at a rate of 0.75% of the total revenue generated from sales of electrical appliances and consumer electronic products of the Parent Group if such revenue is equal or less than RMB5 billion (approximately HK\$4.7 billion) or at a rate of 0.6% if such revenue exceeds RMB5 billion.

As at the acquisition date, an amount of RMB1.1 billion was owed by the Parent Group to the Target Group. As at 30 September 2004, the amount was included in the amount due from related companies under current assets in the consolidated balance sheet of the Group. The amount was subsequently repaid in full in October this year. Please refer to the section under "Post Balance Sheet Events" below for details.

Charges on assets

As at 30 September 2004, the Group had pledged deposits amounting to HK\$971 million to secure the general banking facilities granted to the Group.

Contingent liabilities and commitment

There were no material contingent liabilities and commitments as at 30 September 2004.

Foreign currencies and treasury policy

The Group has little exposure to foreign currencies fluctuations as most of the Group's business transactions, assets and liabilities are principally denominated in either China Renminbi, Hong Kong dollar or United States dollar. It's the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by forward foreign exchange contracts.

Human resources

As at 30 September 2004, the total numbers of employees of the Group were 8,814, including 8,785 in the PRC and 29 in Hong Kong. The Group values its human resources and recognizes the important of attracting and retaining qualified staff for its continuing success. Remuneration packages are generally structured by reference to market terms and individual qualifications.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At 30 September 2004, the interests of the directors and the chief executive of the Company and their associates in the securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing rules") were as follows:

Name of director	Number of ordinary shares held			Percentage of Shareholding
	Personal interests	Corporate interests	Total	
Mr. Wong Kwong Yu	900,087	135,867,754 (note 1)	136,767,841	74.90%

note:

- (1) The Shares are held in name of Shinning Crown Holdings Inc., which is 100% beneficially owned by Mr. Wong Kwong Yu.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 September 2004, so far as known to any Director or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) have an interest in the securities which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of SFO:

Name of Shareholder	Number of ordinary shares held	Percentage of Shareholding
Link Zone International Limited	13,707,700	7.51%

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part, in compliance with the Code of Best Practice as set out in the Listing Rules at any time during the six months ended 30 September 2004, except that independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at annual general meetings in accordance with the By-laws of the Company.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with the management the Company's unaudited consolidated interim financial statements and discussed internal control and financial reporting matters in conjunction with the Company's external auditors.

PUBLICATION OF RESULT ON THE STOCK EXCHANGE'S WEBSITE

The detailed results containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

APPRECIATION

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

By Order of the Board
WONG Kwong Yu
Chairman

Hong Kong, 29 November 2004