



GOME

国美电器

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

# Leading Ahead

interim report 2011

Stock Code: 00493

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# Financial Highlights and Business Summary

## Financial highlights

|   | <b>First half of<br/>2011<br/>RMBm</b> | First half of<br>2010<br>RMBm |
|---|--|-------------------------------|
| Revenue   | <b>29,806</b>                          | 24,873                        |
| Gross profit  | <b>3,729</b>                           | 2,674                         |
| Consolidated gross profit margin*                   | <b>18.34%</b>                          | 17.04%                        |
| Profit from operating activities                    | <b>1,597</b>                           | 1,249                         |
| Profit attributable to owners of the parent company | <b>1,252</b>                           | 962                           |
| Earnings per share                                  |  |                               |
| – Basic   | <b>RMB7.4 fen</b>                      | RMB6.4 fen                    |
| – Diluted   | <b>RMB7.4 fen</b>                      | RMB5.8 fen                    |
| Interim dividend per share                          | <b>RMB2.2 fen</b>                      | –                             |

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

## Business summary

- We continue to push forward our five-year strategic plan in order to enhance value for all shareholders
- We speed up the pace of expansion to increase the coverage of store network
- We have implemented ERP Project, thereby enhancing the structure of supply chain and increasing operating efficiency
- We make great efforts in developing e-commerce, in order to maintain our leading position in the market

# Management Discussion and Analysis

## Overview

During the reporting period, in adherence to the strategic maxim of “leading in 2011 through maximum effort and minimum waste” set out at the beginning of the year, GOME Electrical Appliances Holding Limited (the “Company”) together with its subsidiaries (collectively known as the “Group” or “GOME”), exhibited satisfactory performance in the areas of network coverage, business transformation, infrastructure construction and e-commerce, capitalizing on the favorable external operating environment. As at the end of the reporting period, the Group’s total number of stores rose to 938 from 826 at the end of 2010, following the opening of 131 new stores and the closure of 19 underperforming stores. Also, by remodelling our stores and leveraging our merchandise management strategies, the operational efficiency of individual premises was further improved, as demonstrated by the 7.42% growth in sales revenue from comparable stores.

The Group recorded sales revenue of approximately RMB29,806 million for the reporting period, up 19.83% from RMB24,873 million over the corresponding period of the previous year. Profit attributable to owners of the parent company rose 30.15% to approximately RMB1,252 million from RMB962 million over the corresponding period of the previous year.

The various initiatives formulated by the Group at the beginning of the year were well under way. Apart from expanding store network coverage and remodelling our stores as mentioned above, other focuses were as follows: (1) The e-commerce websites COO8 online shopping network and the revamped GOME online shopping mall were launched in the first half of the year, as the Group moved to intensify its focus on multi-channel and multi-platform business development to strengthen its leading position in the market. (2) Trial runs in some stores under the ERP Leader Navigation Project (“ERP Project”) were successfully implemented on 1 July 2011, with full implementation expected within this year, thereby enhancing the Group’s overall management ability and reducing operating costs, reinforcing its core retail capability. (3) The Group achieved profit differentiation through product differentiation as it continued implementing operational differentiation and drove the development of ODM and OEM manufacture, consequently enhancing its overall profitability. (4) The Group further enhanced the integration of information sharing with its suppliers and further improved its relationships with them.

## Management Discussion and Analysis

### Business review

#### Business development and market potential

##### Policy environment

With the background of strong overall performance of the national economy, the year 2011 is also the first year of China's 12th Five-Year Plan, during which the Chinese government is continuing to implement its proactive fiscal policy and steady monetary policy. In order to improve people's livelihoods and stimulate domestic demand, various policies, such as the building of 10 million units of social security housing, the "go rural", "exchange old for new" policies (for home appliances), and "energy-saving subsidies" were continued. The ongoing implementation and continuous expansion of scope of the applicable policies have effectively driven consumption growth. According to figures released by the National Bureau of Statistics, China's GDP grew 9.6% over the reporting period, and consumer spending on retail goods reached approximately RMB8,580 billion, representing a year-on-year growth of 16.8%.

Our management believes that the various policies mentioned above will further boost the development of home appliance retail market. In addition, by leveraging on its competitive brands, online and offline sales and service network, coupled with its innovative and sustainable business model, the Group will maintain its fast and stable growth in sales.

##### Industry environment

Currently, the home appliance retail industry is in the process of platform network expansion and consolidation, where peers are competing for operating efficiency. Meanwhile, we have also witnessed intensifying competition in the home appliance retail industry with the entry of large-scale foreign home appliance retailers, and the new and fast-growing e-commerce business models. As the industry value chain continues to reshape itself, relationship between retailers and suppliers as articulated through contract models and share of market data will affect the structure of the whole home appliances retail industry in the future.

In the face of this situation, management believes that the core areas of competition in the retail industry are optimization of the store network, improvement in the supply chain, and enhancing the standards of product management. Accordingly, the Group will continue to expand the scale of its store network, strive to boost same-store growth and pursue the remodelling of its business, as well as constructing an information system that supports the fast growth of the Group in the future. The Group will continue to capitalize on the benefits of economies of scale and effectively build these into our strengths in supply chain and product management. During this period of expansion and transformation, the Group will strictly control its risk exposure to ensure fast and steady growth, achieve rapidly rising sales and steady increase in profitability, so as to maintain the Group's leading position in the industry.

## Management Discussion and Analysis

### Analysis of operating advantage

#### The most valuable brand

At the China Brand Power Index (“C-BPI”) industry first brand conference held by Chinese Brand Research Center in Beijing in June 2011, GOME was awarded the title of “2011 C-BPI First Electronics Retailer Brand” with a score of 645.7 points, given its “longstanding history of nearly 25 years and outstanding contributions for the development of China’s home appliance retail industry and the improvement of people’s quality of life”. In addition, another brand of the Group, China Paradise, also ranked third in the Electronics Retailer Brand, comprehensively demonstrating the Group’s strong brand competitiveness and influence.

Over the years, the Group has been active in striving to establish an efficient and professional service portal between manufacturers and consumers. All of our business activities are focused on meeting consumer demand, and we attach great importance to shopping experience, customer satisfaction and customer recognition, with a view to building “GOME” as a quality and dynamic brand.

#### Fast expanding store network

During the reporting period, the Group accelerated the expansion of its store network and further improved its existing network, continuously transforming its stores and optimizing its network nationwide. Our store network expansion was conducted according to the following fundamental principles: In first-tier markets, the Group focused on the development of megastores and super-flagship stores (the “Xin Huo Guan”), creating a new shopping experience for customers; In second-tier markets, the Group stepped up its efforts in the opening of new stores on the basis of prime locations where supply chain support was already in place.

In the first half of 2011, the Group opened 131 new stores, representing a substantial increase as compared with 39 new stores over the same period last year, meeting the new opening target as set out by management at the beginning of the year. Meanwhile, the Group optimized its existing store network and continued to close underperforming and loss-making stores, with 19 stores closed in the first half of 2011. On the other hand, the Group continued its strategy of improving the shopping environment of stores set out in 2010, and revamped the existing stores in first-tier markets. Up to the end of reporting period, a total of 337 existing stores were remodeled into “new-model stores”, and 18 existing stores were remodeled into “Xin Huo Guan”. Out of the 185 stores in second-tier markets covered by the upgrade and revamp program (“185 Project”), a total of 112 stores were revamped up to 30 June 2011, thus maximizing the shopping experience of customers.

As at the end of the reporting period, the Group had 938 outlets in 218 large- and medium-sized cities nationwide. Among them, 576 stores were located in first-tier markets with strong consumer spending power. The Group’s 938 stores occupied a total sales area of 3,323,000 sq.m. The average sales area per store was 3,543 sq.m. as at 30 June 2011.

In addition, as at the end of the reporting period, including 494 outlets of the Non-listed GOME Group (excluding stores in Hong Kong and Macau) and 59 outlets under the Dazhong Appliances brand, the Group’s total number of stores reached 1,491 and spanned 364 large- and medium-sized cities.

## Management Discussion and Analysis

### The Nationwide Retail Network of the Group

As at 30 June 2011

#### Development of Network:

|                                  | Group total | GOME       | China<br>Paradise | CellStar  |
|----------------------------------|-------------|------------|-------------------|-----------|
| Flagship stores                  | 104         | 86         | 18                | 0         |
| Standard stores                  | 789         | 662        | 127               | 0         |
| Specialized stores               | 45          | 4          | 1                 | 40        |
| <b>Total</b>                     | <b>938</b>  | <b>752</b> | <b>146</b>        | <b>40</b> |
| Among them: First-tier markets   | 576         | 432        | 110               | 34        |
| Second-tier markets              | 362         | 320        | 36                | 6         |
| Net increase in number of stores | 112         | 74         | 18                | 20        |
| Number of stores opened          | 131         | 86         | 22                | 23        |
| Among them: First-tier markets   | 69          | 37         | 13                | 19        |
| Second-tier markets              | 62          | 49         | 9                 | 4         |
| Number of cities accessed        | 218         | 185        | 55                | 6         |
| Among them: First-tier cities    | 26          | 20         | 9                 | 1         |
| Second-tier cities               | 192         | 165        | 46                | 5         |

## Management Discussion and Analysis

### List of stores:

| Region    | Flagship stores | Standard stores | Specialized stores | Total |
|-----------|-----------------|-----------------|--------------------|-------|
| Beijing   | 10              | 47              | 0                  | 57    |
| Shanghai  | 10              | 64              | 1                  | 75    |
| Tianjin   | 11              | 26              | 0                  | 37    |
| Chengdu   | 6               | 49              | 0                  | 55    |
| Chongqing | 6               | 34              | 0                  | 40    |
| Xi'an     | 4               | 30              | 40                 | 74    |
| Shenyang  | 5               | 28              | 0                  | 33    |
| Qingdao   | 5               | 26              | 0                  | 31    |
| Jinan     | 3               | 23              | 0                  | 26    |
| Shenzhen  | 3               | 79              | 0                  | 82    |
| Guangzhou | 4               | 116             | 2                  | 122   |
| Wuhan     | 5               | 30              | 1                  | 36    |
| Kunming   | 3               | 19              | 0                  | 22    |
| Fuzhou    | 4               | 32              | 0                  | 36    |
| Xiamen    | 1               | 30              | 0                  | 31    |
| Henan     | 3               | 33              | 0                  | 36    |
| Nanjing   | 2               | 37              | 0                  | 39    |
| Wuxi      | 3               | 7               | 0                  | 10    |
| Changzhou | 2               | 11              | 0                  | 13    |
| Suzhou    | 4               | 16              | 0                  | 20    |
| Hefei     | 2               | 9               | 0                  | 11    |
| Xuzhou    | 1               | 14              | 0                  | 15    |
| Tangshan  | 0               | 11              | 0                  | 11    |
| Lanzhou   | 5               | 9               | 0                  | 14    |
| Wenzhou   | 2               | 9               | 1                  | 12    |
| Total     | 104             | 789             | 45                 | 938   |

## Management Discussion and Analysis

### **Strengthening e-commerce**

In recent years, e-commerce in China has experienced a rapid development. The online shopping market is expected to reach a high double digit growth over 2011. In view of this, the Group has commenced its e-commerce business in 2011, and has quickly established an e-commerce platform to cater for future demand.

During the reporting period, the Group successively rolled out its own e-commerce platform, the C008 online shopping network ([www.C008.com](http://www.C008.com)), and launched the revamped GOME online shopping mall ([www.gome.com.cn](http://www.gome.com.cn)), which showed satisfactory performance in the first half of the year. Management believes that, if we can capture the essentials of e-commerce and core competitiveness, and achieve a seamless connection between the supply chain and service system catering to consumers' needs and the manufacturing system with our upstream suppliers, we can fully capitalize on the advantages of the e-commerce operating model featuring "B2C + physical stores", outperforming our peers in the e-commerce industry and further strengthening our leading position in the home appliance retail sector.

### **Rapid information system development**

After one year of testing and preparation, the Group's ERP Project was successfully launched in some trial locations on 1 July 2011, providing strong support for the Group's management and enhancing the Group's business model. The Group plans to complete the installation of the ERP system in all branch offices by the end of the year, so that its leadership position in information systems development among the home appliance retail industry will be further reinforced.

As a pioneer and leader in the home appliance retail industry in China, the Group's successful launch of the new ERP system is not only a major achievement in information systems development, but also marked its commitment as a PRC retail enterprise to develop international-level core competences. The new system will substantially enhance the Group's professionalism and speed up the seamless integration among retailers, consumers and suppliers, thereby enhancing the efficiency of the entire supply chain and reducing costs. Accordingly, both consumers and suppliers will benefit from it.

### **Implementing differentiation strategy**

Operational differentiation is always the core of the Group's strategic development. The Group is currently pushing its differentiation strategy through strategic cooperation with related major manufacturers via various synergistic supply chain models, such as promotion, exclusive sale, custom-tailoring, OEM, ODM and accessories, to integrate its overall competitiveness and resources, with corresponding effective extension of the Group's platforms into wider and deeper markets. Currently, the Group has entered into large-scale differentiated merchandise cooperation agreements with manufacturers such as Haier, Samsung, LG, Sharp, Sanyo Electric, Electrolux and Meiling. By introducing strong brands and trendy new products, the Group has enriched its product portfolio, satisfying the personal needs of consumers, and also achieving higher gross profit margins.

## Management Discussion and Analysis

### Enhancing relationships with suppliers

In 2011, the Group continued to optimize its supply chain with its suppliers. Its self-developed GOME supplier platform (“GSP”) was successfully launched. The Group can integrate the information of its own inventory, logistics and services systems with suppliers. This will not only enhance supply chain efficiency and reduce operating costs, but also further improve our relations with suppliers.

During the reporting period, the Group continued to step up its cooperation with suppliers. After renowned brands such as Haier, Samsung, LG, Sharp and Midea successively became the Group’s new strategic suppliers, Sanyo Electric also entered into a five-year close cooperation agreement with the Group at the beginning of the year to jointly explore an innovative cooperation model with high synergy. In the course of merchandise management model transformation, the Group worked with suppliers on the entire supply chain from demand anticipation, research and development, production, sales and after-sales to resources sharing, to promote the seamless integration of supply and demand chains.

During the reporting period, purchases from the Group’s five largest brand-name suppliers accounted for approximately 33.12% of the total purchase amount, which remained largely the same as compared to 32.95% for the corresponding period of 2010.

### Sound corporate governance

The Group continuously endeavors to improve its corporate governance. On 10 June 2011, reorganization of the board of directors of the Company (the “Board”) has taken place. After the personnel reshuffle, the Board is composed of two executive directors, four non-executive directors and five independent non-executive directors, facilitating the communication between management and the Board, and as a result, separation of the duties of decision-making and execution can be further achieved. The reorganization of the Board enhanced corporate governance by ensuring constructive discussion among the directors and better execution by the management in the development of future strategy of the Group.

### Human resources expertise

The Group has a total of 57,982 employees as at the end of June 2011. The Group has strengthened human resources management and development to meet the needs of its business scale expansion and dedicated management. In line with its expansion strategy, the Group has implemented a shop manager training program. During the reporting period, 850 candidates of qualified shop manager level and 1,802 candidates of qualified assistant shop manager level were trained. In order to enhance retail service standard, the Group expanded its number of retail training schools (“SOL”) to 73 nationwide. The Group also constructed a comprehensive E-learning platform and continued to standardize and systematize terminal training to support the roll-out of its ERP system. Such measures have fully met the requirements for talent training to cope with the Group’s development.

## Management Discussion and Analysis

### Financial review

#### Revenue

During the reporting period, the Group's revenue was approximately RMB29,806 million, up 19.83% from RMB24,873 million in the corresponding period of 2010. The Group's weighted average sales area was approximately 3,111,000 sq.m. The Group's revenue per sq.m. was approximately RMB9,581, up 4.18% as compared to RMB9,197 in the corresponding period of 2010. The Group had 669 comparable stores, recording a revenue of RMB24,202 million, up 7.42% as compared to RMB22,531 million in the corresponding period of 2010.

Proportion of revenue from each product category over total revenue:

|                                   | <b>First half of 2011</b> | First half of 2010 |
|-----------------------------------|---------------------------|--------------------|
| As a percentage of sales revenue: |                           |                    |
| AV                                | <b>29.83%</b>             | 30.49%             |
| Air-conditioner                   | <b>13.50%</b>             | 13.44%             |
| Refrigerator and washing machine  | <b>17.01%</b>             | 16.91%             |
| Telecommunication                 | <b>14.29%</b>             | 14.10%             |
| Small white appliances            | <b>11.32%</b>             | 10.89%             |
| IT                                | <b>6.89%</b>              | 6.81%              |
| Digital                           | <b>7.16%</b>              | 7.36%              |
| Total                             | <b>100%</b>               | 100%               |

#### Cost of sales and gross profit

Cost of sales for the Group was approximately RMB26,077 million in the reporting period, accounting for 87.49% of the total sales revenue, lower than the proportion of 89.25% in the corresponding period of 2010. The Group's gross profit was approximately RMB3,729 million, up 39.45% as compared with RMB2,674 million in the corresponding period of last year. Gross profit margin was 12.51%, up 1.76 percentage points from 10.75% in the corresponding period of last year. The main reason for the increase was that the Group strove successfully to enhance the overall gross profit margin by standardizing contract terms with its suppliers, such that the original uncontracted charges were included in the supplier contracts and these charges were directly reflected in the gross profit. Additionally, continuous implementation of differentiated products strategy also contributed to the increase in overall gross profit margin.

## Management Discussion and Analysis

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

|                                  | <b>First half of 2011</b> | First half of 2010 |
|----------------------------------|---------------------------|--------------------|
| AV                               | <b>13.56%</b>             | 11.54%             |
| Air-conditioner                  | <b>13.75%</b>             | 10.67%             |
| Refrigerator and washing machine | <b>12.86%</b>             | 11.24%             |
| Telecommunication                | <b>9.25%</b>              | 8.86%              |
| Small white appliances           | <b>14.44%</b>             | 13.56%             |
| IT                               | <b>8.68%</b>              | 6.45%              |
| Digital                          | <b>12.11%</b>             | 9.92%              |
| Total                            | <b>12.51%</b>             | 10.75%             |

### Other income and gains

During the reporting period, the Group recorded other income and gains of approximately RMB1,737 million, representing an increase of 11.06% as compared to RMB1,564 million in the corresponding period of 2010. The percentage of income from suppliers over sales revenue was 3.65%, lower than 4.43% in the corresponding period of the previous year. The main reason was due to the standardization of contract terms between the Group and suppliers in the reporting period, which caused more income to be directly reflected in gross profit.

Summary of other income and gains:

|  | <b>First half of 2011</b> | First half of 2010 |
|--|---------------------------|--------------------|
| As a percentage of sales revenue:                |                           |                    |
| Income from suppliers                            | <b>3.65%</b>              | 4.43%              |
| Management and purchasing service fees:          |                           |                    |
| – from the Non-listed GOME Group                 | <b>0.62%</b>              | 0.56%              |
| – from Dazhong Appliances                        | <b>0.14%</b>              | 0.18%              |
| Management fees for air-conditioner installation | <b>0.21%</b>              | 0.24%              |
| Gross rental income                              | <b>0.38%</b>              | 0.36%              |
| Government grants                                | <b>0.17%</b>              | 0.19%              |
| Others   | <b>0.66%</b>              | 0.33%              |
| Total  | <b>5.83%</b>              | 6.29%              |

## Management Discussion and Analysis

### Consolidated gross profit margin

During the reporting period, the Group's consolidated gross profit margin reached 18.34%, representing an increase of 1.30 percentage points as compared to 17.04% for the corresponding period of 2010. The increase in gross profit margin has driven the increase in consolidated gross profit margin, and also reflected the advantages of product differentiation, economies of scale and increased operating efficiency.

### Operating expenses

During the reporting period, the Group's total operating expenses (comprised of selling and distribution costs, administrative expenses and other expenses) were approximately RMB3,869 million, accounting for 12.98% of total sales revenue, up 0.96 percentage points as compared to 12.02% for the corresponding period of 2010, which is attributable to the increase in rents due to the rapid opening of new stores during the period and the increase in staff costs due to enhancement of incentive package for existing employees.

Summary of operating expenses:

|                                   | <b>First half of 2011</b> | First half of 2010 |
|-----------------------------------|---------------------------|--------------------|
| As a percentage of sales revenue: |                           |                    |
| Selling and distribution costs    | <b>10.35%</b>             | 9.45%              |
| Administrative expenses           | <b>1.93%</b>              | 1.84%              |
| Other expenses                    | <b>0.70%</b>              | 0.73%              |
| <b>Total</b>                      | <b>12.98%</b>             | 12.02%             |

### Selling and distribution costs

During the reporting period, the Group's total selling and distribution costs amounted to approximately RMB3,086 million. The percentage over sales revenue was 10.35%, up 0.90 percentage points as compared to 9.45% in the corresponding period of 2010. The increase of selling and distribution costs was mainly due to the increase in staff costs, which as a percentage of sales revenue increased 0.65 percentage points as compared with the corresponding period of last year, as the result of the large-scale expansion of store network, recruitment of salespersons by the Group to replace salespersons assigned by suppliers, and the enhancement of the incentive remuneration package of employees.

## Management Discussion and Analysis

Summary of selling and distribution costs:

|                                   | <b>First half of 2011</b> | First half of 2010 |
|-----------------------------------|---------------------------|--------------------|
| As a percentage of sales revenue: |                           |                    |
| Rental                            | <b>3.94%</b>              | 3.87%              |
| Staff costs                       | <b>2.77%</b>              | 2.12%              |
| Utility charges                   | <b>0.63%</b>              | 0.71%              |
| Advertising expenses              | <b>1.06%</b>              | 0.98%              |
| Delivery expenses                 | <b>0.61%</b>              | 0.50%              |
| Others                            | <b>1.34%</b>              | 1.27%              |
| <b>Total</b>                      | <b>10.35%</b>             | 9.45%              |

### Administrative expenses

With continuing expansion of the Group's operating scale and the need to strengthened the precision management strategy, administrative expenses increased accordingly. During the reporting period, administrative expenses were approximately RMB576 million, the proportion over sales revenue was 1.93%, up 0.09 percentage points as compared to 1.84% in the corresponding period of 2010. The administrative expenses still maintained at a relatively low level in the industry due to strong control over expenses by the Group.

### Other expenses

Other expenses of the Group mainly comprised, among others, business taxes, bank charges and exchange loss. Other expenses were approximately RMB207 million during the reporting period, accounting for 0.70% of sales revenue, slightly lower than the proportion of 0.73% in the corresponding period of 2010.

### Profit from operating activities

During the reporting period, the Group's profit from operating activities was approximately RMB1,597 million, representing an increase of 27.86% as compared to RMB1,249 million in the corresponding period of 2010, which was mainly attributable to an increase in the consolidated gross profit margin while keeping the operating expenses at a reasonable level.

## Management Discussion and Analysis

### Net finance gains

During the reporting period, following a decrease in interest expenses on convertible bonds after the bonds were redeemed or converted into the Company's shares, the Group's net finance gains were approximately RMB69 million, as compared with a net finance loss of RMB104 million in the first half of 2010. In addition, interest income also increased 11.90% to RMB188 million for the reporting period from RMB168 million in the corresponding period of the previous year.

### Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB1,666 million, representing an increase of 32.64% as compared to RMB1,256 million for the corresponding period of 2010. Profit margin before tax also increased 0.54 percentage points to 5.59% from 5.05% for last year.

### Income tax expense

During the reporting period, the Group's income tax expense was approximately RMB422 million, higher than the RMB293 million recorded for the corresponding period of 2010. Management considers that the effective tax rate applied to the Group for the reporting period is reasonable.

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

During the reporting period, the Group's profit attributable to owners of the parent company was approximately RMB1,252 million, representing an increase of 30.15% as compared to RMB962 million for the corresponding period of last year. Net profit margin was 4.20%, up by 0.33 percentage points as compared to 3.87% for the corresponding period of the previous year. Basic earnings per share were RMB0.074, representing a growth of 15.63% as compared to RMB0.064 for the corresponding period of last year.

### Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents held by the Group were approximately RMB8,398 million, representing an increase of 34.76% as compared to RMB6,232 million as at the end of 2010. Due to steady business growth and effective payment control, cash and cash equivalents continued to increase.

### Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB8,521 million, up 5.39% as compared to RMB8,085 million at the end of 2010. Inventory turnover days increased to approximately 58 days in the reporting period from 50 days in the first half of 2010, which was mainly attributable to expansion of store network in second-tier markets and the resulting longer logistics supply chain.

## Management Discussion and Analysis

### Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB2,406 million, slightly down 1.64% from RMB2,446 million as at the end of 2010.

### Trade and bills payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB18,474 million, up 9.31% from RMB16,900 million as at the end of 2010. Turnover days of trade and bills payables were approximately 123 days, down by 7 days as compared to 130 days for the corresponding period of 2010.

### Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB377 million, representing a 144.81% increase as compared to RMB154 million in the first half of 2010. The increase was mainly due to the accelerating pace of expansion of the Group's store network coverage in the period.

### Cash flows

During the reporting period, the Group's net cash flows generated from operating activities amounted to approximately RMB2,403 million, down by 23.13% as compared to RMB3,126 million in the corresponding period of last year.

Net cash flows used in investing activities amounted to approximately RMB470 million, representing an increase of 219.73% as compared to RMB147 million in the first half of 2010, which was mainly attributable to the accelerating expansion of the Group's store network coverage in the period.

During the reporting period, as there was no cash outflow used for the redemption of convertible bonds, net cash flows generated from financing activities amounted to approximately RMB207 million, as compared with a total of RMB3,018 million used in the first half of 2010.

### Declaration of dividend and dividend policy

The Board declared an interim dividend of HK\$2.7 cents (equivalent to RMB2.2 fen) per ordinary share (the "Interim Dividend") for the six-month period ended 30 June 2011, amounting to approximately HK\$454,937,000 (equivalent to RMB378,335,000).

Currently, the Board anticipates that the dividend payout ratio will be maintained at approximately 30% of the Group's distributable profit for the relevant financial year. However, the actual payout ratio in a financial year will be determined at the Board's full discretion, after taking into account, among other considerations, availability of investment and acquisition opportunities.

## Management Discussion and Analysis

### Contingent liabilities and capital commitments

During the reporting period, the Group had no material contingent liabilities and had capital commitments of approximately RMB165 million.

### Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. However, as Renminbi has been appreciating against US dollar, the Group's short-term HK dollar and US dollar deposits recorded an exchange loss in the period. The Group has adopted effective measures to reduce such risks. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

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

### Financial resources and gearing ratio

During the reporting period, the Group's working capital, capital expenditure and cash for investments were funded from cash on hand, cash generated from operations, convertible bonds and an interest-bearing bank loan. Convertible bonds and interest-bearing bank loan were mainly denominated in Renminbi with fixed coupon and borrowing rates.

As at the end of June 2011, the total borrowings of the Group, being interest-bearing bank loan and convertible bonds, amounted to RMB2,124 million. Of the total borrowings, RMB234 million will be repayable within one year and RMB1,890 million will be repayable after one year. The Group's financing activities continue to be supported by its bankers.

As at 30 June 2011, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to RMB2,124 million over total equity amounting to RMB15,727 million, slightly decreased to 13.51% from 13.87% as at 31 December 2010.

### Charge on group assets

As at the end of June 2011, the Group's bills payable and PRC bank loan were secured by the Group's time deposits amounting to RMB6,235 million, certain inventories with a carrying value of RMB540 million and certain buildings and self-owned properties with a carrying value of RMB2,196 million. The Group's bills payable and PRC bank loans amounted to RMB12,949 million in total.

## Management Discussion and Analysis

### Outlook and prospects

Year 2011 is the first year of China's 12th Five-Year Plan, heralding the country's economic restructuring. In response to macroeconomic trends, the Group will firmly implement its development plan over the next five years in adherence to the strategic maxim of "leading in 2011 through maximum effort and minimum waste" set out at the beginning of the year. We will strive to expand our store network and drive same-store growth, and will continue to promote business restructuring. The Group will continue to capitalize on the benefits of economies of scale, and effectively transform these into our strengths in supply chain and product management. During this period of expansion and transformation, the Group will strictly control its risk exposure to ensure fast and steady growth, achieving a rapid rise in sales and a steady increase in profitability.

At the same time of maintaining its leading position in the home appliance retail industry, the Group will endeavor to further optimize its store network in first-tier markets, while actively expanding into second-tier markets. The Group will penetrate into third-tier and fourth-tier markets which are economically developed, when opportunities arise. Coupled with its efforts in first-tier and second-tier markets, the Group will solidify its leading position.

Following the rollout of the Group's e-commerce websites, namely the COO8 online shopping network and the revamped GOME online shopping mall, in the reporting period, the Group's e-commerce operating model, featuring "B2C + physical stores", has been introduced to the market officially, with a view to establishing such e-commerce platforms as the most influential online sales network in the industry. Accordingly, the Group will lead the development of the home appliance industry and cater to the demand from emerging consumer groups for home appliances.

In order to support the rapid expansion of its store network and the development of its e-commerce business, the Group will push ahead with the development of regional logistics centers, supplemented by the advanced information systems management, to meet the demand for logistics and information flow in future development.

The ERP Project launched by the Group in 2010 has already achieved its initial success, and the Group is planning to complete the installation of ERP systems for all branch offices by the end of the year. With the leading software system in the world, we will capture valuable information in various operational processes, such as procurement, warehousing, sales and back-office administration, to provide strong support for the Group's development in the future.

## Management Discussion and Analysis

The Group will continue to migrate and improve its operating model from “shopping mall” to “merchandise management”; strengthen store operating efficiency; and push ahead with the transformation of existing stores to enhance its product category management. In pursuing closer cooperation with major suppliers for procurement, the Group endeavors to reduce the operating costs of both parties, and at the same time lower the purchasing costs for consumers. With its new information systems management, the Group will be able to capitalize on the consumer demand more accurately. Through analysis of the operations of its nationwide terminal stores and e-commerce platforms, the Group will consolidate information on consumers’ demand and share such information with suppliers, thereby setting guidelines for suppliers’ raw material procurement, product R&D and manufacturing. Accordingly, “immediate procurement on demand” and “immediate supply on demand” can be achieved; inventory accumulation and the related costs can be reduced throughout the supply chain.

In terms of customer service, the Group has strengthened the construction of multimedia customer service platforms, which include functions such as telephone, internet, SMS, email and fax, as well as promoting industrial specific and regional customer services, and strengthening professional services such as home appliance consultancy services. Together with the launch of the new ERP system, the Group will implement monitoring system in the entire process from delivery and installation to maintenance. The Group will continue to optimize the structure of service products and enhance its service quality continuously, so as to improve customer satisfaction to the full.

# Report on Review of Interim Financial Information



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

## Introduction

We have reviewed the interim financial information set out on pages 20 to 68 which comprises the condensed consolidated statement of financial position of GOME Electrical Appliances Holding Limited as at 30 June 2011 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

**Ernst & Young**  
Certified Public Accountants  
Hong Kong  
29 August 2011

# Interim Condensed Consolidated Income Statement

For the six-month period ended 30 June 2011

|   | Notes | For the six-month period<br>ended 30 June |                                |
|---|-------|---|--------------------------------|
|   |       | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| <b>REVENUE</b>  | 4     | <b>29,805,550</b>                         | 24,873,283                     |
| Cost of sales   |       | <b>(26,076,876)</b>                       | (22,199,502)                   |
| <b>Gross profit</b>   |       | <b>3,728,674</b>                          | 2,673,781                      |
| Other income and gains  | 4     | <b>1,737,076</b>                          | 1,564,031                      |
| Selling and distribution costs  |       | <b>(3,085,535)</b>                        | (2,350,793)                    |
| Administrative expenses   |       | <b>(575,847)</b>                          | (457,068)                      |
| Other expenses  |       | <b>(207,123)</b>                          | (180,558)                      |
| <b>Profit from operating activities</b>   |       | <b>1,597,245</b>                          | 1,249,393                      |
| Finance costs   | 6     | <b>(118,727)</b>                          | (271,707)                      |
| Finance income  | 6     | <b>188,148</b>                            | 167,871                        |
| Loss on the derivative component of convertible bonds                                       | 20(i) | <b>(233)</b>                              | (92,351)                       |
| Gain on redemption of convertible bonds   |       | -   | 202,578                        |
| <b>PROFIT BEFORE TAX</b>  | 5     | <b>1,666,433</b>                          | 1,255,784                      |
| Income tax expense  | 7     | <b>(421,779)</b>                          | (293,458)                      |
| <b>PROFIT FOR THE PERIOD</b>  |       | <b>1,244,654</b>                          | 962,326                        |
| Attributable to:  |       |   |                                |
| Owners of the parent company  |       | <b>1,251,849</b>                          | 962,326                        |
| Non-controlling interests   |       | <b>(7,195)</b>                            | -                              |
|   |       | <b>1,244,654</b>                          | 962,326                        |
| <b>EARNINGS PER SHARE ATTRIBUTABLE TO<br/>ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY</b> | 8     |   |                                |
| - Basic   |       | <b>RMB7.4 fen</b>                         | RMB6.4 fen                     |
| - Diluted   |       | <b>RMB7.4 fen</b>                         | RMB5.8 fen                     |

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six-month period ended 30 June 2011

|   | Note | For the six-month period<br>ended 30 June |                                |
|---|------|---|--------------------------------|
|   |      | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| <b>PROFIT FOR THE PERIOD</b>  |      | <b>1,244,654</b>                          | 962,326                        |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>                                |      |   |                                |
| Changes in fair value of other investments                              | 10   | 35,438                                    | (25,650)                       |
| Exchange differences on translation of foreign operations               |      | 25,490                                    | 161                            |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)<br/>FOR THE PERIOD, NET OF TAX</b> |      | <b>60,928</b>                             | (25,489)                       |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE<br/>PERIOD, NET OF TAX</b>        |      | <b>1,305,582</b>                          | 936,837                        |
| Attributable to:  |      |   |                                |
| Owners of the parent company  |      | 1,312,777                                 | 936,837                        |
| Non-controlling interests   |      | (7,195)                                   | -                              |
|   |      | <b>1,305,582</b>                          | 936,837                        |

# Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2011

|  | Notes | 30 June<br>2011<br>(Unaudited)<br>RMB'000 | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|--|-------|---|---|
| <b>NON-CURRENT ASSETS</b>                            |       |   |   |
| Property and equipment                               | 9     | 3,735,320                                 | 3,556,163                                   |
| Investment properties                                |       | 833,440                                   | 830,611                                     |
| Goodwill   |       | 4,030,771                                 | 4,014,981                                   |
| Other intangible assets                              |       | 113,271                                   | 116,157                                     |
| Other investments                                    | 10    | 163,148                                   | 127,710                                     |
| Long term lease prepayments                          |       | 392,775                                   | 387,784                                     |
| Deferred tax assets                                  |       | 38,405                                    | 39,513                                      |
| Designated loans                                     | 11    | 3,600,000                                 | 3,648,000                                   |
| Total non-current assets                             |       | <b>12,907,130</b>                         | 12,720,919                                  |
| <b>CURRENT ASSETS</b>                                |       |   |   |
| Financial asset at fair value through profit or loss | 12    | 200,000                                   | -   |
| Inventories  | 13    | 8,521,108                                 | 8,084,971                                   |
| Trade and bills receivables                          | 14    | 148,353                                   | 206,102                                     |
| Prepayments, deposits and other receivables          | 15    | 2,405,538                                 | 2,446,051                                   |
| Due from related parties                             | 16    | 117,259                                   | 251,290                                     |
| Derivative component of convertible bonds            | 20    | 7,116                                     | 7,349                                       |
| Pledged deposits                                     | 17    | 6,235,256                                 | 6,268,130                                   |
| Cash and cash equivalents                            | 17    | 8,398,193                                 | 6,232,450                                   |
| Total current assets                                 |       | <b>26,032,823</b>                         | 23,496,343                                  |
| <b>CURRENT LIABILITIES</b>                           |       |   |   |
| Interest-bearing bank loan                           | 18    | 100,000                                   | 100,000                                     |
| Trade and bills payables                             | 19    | 18,473,934                                | 16,899,683                                  |
| Customers' deposits, other payables and accruals     |       | 1,975,338                                 | 1,819,999                                   |
| Due to related parties                               | 16    | 11,101                                    | 97,826                                      |
| Convertible bonds                                    | 20    | 133,663                                   | 129,976                                     |
| Tax payable  |       | 535,401                                   | 509,374                                     |
| Total current liabilities                            |       | <b>21,229,437</b>                         | 19,556,858                                  |

## Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2011

|  | Notes | 30 June<br>2011<br>(Unaudited)<br>RMB'000 | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|--|-------|---|---|
| <b>NET CURRENT ASSETS</b>                                  |       | <b>4,803,386</b>                          | 3,939,485                                   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>               |       | <b>17,710,516</b>                         | 16,660,404                                  |
| <b>NON-CURRENT LIABILITIES</b>                             |       |   |   |
| Deferred tax liabilities                                   |       | 92,741                                    | 111,148                                     |
| Convertible bonds  | 20    | 1,890,769                                 | 1,814,069                                   |
| Total non-current liabilities                              |       | <b>1,983,510</b>                          | 1,925,217                                   |
| Net assets   |       | <b>15,727,006</b>                         | 14,735,187                                  |
| <b>EQUITY</b>  |       |   |   |
| <b>Equity attributable to owners of the parent company</b> |       |   |   |
| Issued capital   | 21    | 421,035                                   | 417,666                                     |
| Reserves   |       | 15,305,114                                | 13,735,246                                  |
| Proposed final dividend                                    | 24    | -   | 582,275                                     |
|  |       | <b>15,726,149</b>                         | 14,735,187                                  |
| <b>Non-controlling interests</b>                           |       | <b>857</b>                                | -   |
| Total equity   |       | <b>15,727,006</b>                         | 14,735,187                                  |

**Zhang Da Zhong**  
Director

**Ng Kin Wah**  
Director

# Interim Condensed Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2011

|       |   | Attributable to owners of the parent company |               |                     |                 |                      |                           |                                      |                    |                              |                   |                         |            | Non-controlling interests | Total equity |
|-------|---|--|---------------|---------------------|-----------------|----------------------|---------------------------|--------------------------------------|--------------------|------------------------------|-------------------|-------------------------|------------|---------------------------|--------------|
|       |   | Issued capital                               | Share premium | Contributed surplus | Capital reserve | Share option reserve | Asset revaluation reserve | Other investment revaluation reserve | Statutory reserves | Exchange fluctuation reserve | Retained earnings | Proposed final dividend | Total      |                           |              |
| Notes |   | RMB'000                                      | RMB'000       | RMB'000             | RMB'000         | RMB'000              | RMB'000                   | RMB'000                              | RMB'000            | RMB'000                      | RMB'000           | RMB'000                 | RMB'000    | RMB'000                   |              |
|       | <b>At 1 January 2011</b>                                  | 417,666                                      | 9,128,851     | 657                 | (657,232)       | 162,144              | 116,912                   | 33,750                               | 1,137,372          | (218,176)                    | 4,030,968         | 582,275                 | 14,735,187 | -                         | 14,735,187   |
|       | Profit for the period                                     | -  | -             | -                   | -               | -                    | -                         | -                                    | -                  | -                            | 1,251,849         | -                       | 1,251,849  | (7,195)                   | 1,244,654    |
|       | Changes in fair value of other investments                | -  | -             | -                   | -               | -                    | -                         | 35,438                               | -                  | -                            | -                 | -                       | 35,438     | -                         | 35,438       |
|       | Exchange differences on translation of foreign operations | -  | -             | -                   | -               | -                    | -                         | -                                    | -                  | 25,490                       | -                 | -                       | 25,490     | -                         | 25,490       |
|       | <b>Total comprehensive income/ (loss) for the period</b>  | -  | -             | -                   | -               | -                    | -                         | 35,438                               | -                  | 25,490                       | 1,251,849         | -                       | 1,312,777  | (7,195)                   | 1,305,582    |
|       | Acquisition of subsidiaries                               | 23   | -             | -                   | -               | -                    | -                         | -                                    | -                  | -                            | -                 | -                       | -          | 8,052                     | 8,052        |
|       | Exercise of warrants                                      | 21   | 2,300         | 162,125             | -               | -                    | -                         | -                                    | -                  | -                            | -                 | -                       | 164,425    | -                         | 164,425      |
|       | Exercise of share options                                 | 22   | 1,069         | 112,392             | -               | (32,205)             | -                         | -                                    | -                  | -                            | -                 | -                       | 81,256     | -                         | 81,256       |
|       | Equity-settled share option arrangements                  | 22   | -             | -                   | -               | 19,959               | -                         | -                                    | -                  | -                            | -                 | -                       | 19,959     | -                         | 19,959       |
|       | Final 2010 dividend                                       | 24   | -             | -                   | -               | -                    | -                         | -                                    | -                  | -                            | (5,180)           | (582,275)               | (587,455)  | -                         | (587,455)    |
|       | Wind-up of a subsidiary                                   | -  | -             | -                   | -               | -                    | -                         | -                                    | (493)              | -                            | 493               | -                       | -          | -                         | -            |
|       | <b>At 30 June 2011 (unaudited)</b>                        | 421,035                                      | 9,403,368*    | 657*                | (657,232)*      | 149,898*             | 116,912*                  | 69,188*                              | 1,136,879*         | (192,686)*                   | 5,278,130*        | -                       | 15,726,149 | 857                       | 15,727,006   |

\* As at 30 June 2011, these reserve accounts comprised the consolidated reserves of RMB15,305,114,000 (31 December 2010: RMB13,735,246,000) in the interim condensed consolidated statement of financial position.

|       |   | Attributable to owners of the parent company |               |                     |                 |                      |                           |                                      |                    |                              |                   |            |         | Non-controlling interests | Total equity |
|-------|---|--|---------------|---------------------|-----------------|----------------------|---------------------------|--------------------------------------|--------------------|------------------------------|-------------------|------------|---------|---------------------------|--------------|
|       |   | Issued capital                               | Share premium | Contributed surplus | Capital reserve | Share option reserve | Asset revaluation reserve | Other investment revaluation reserve | Statutory reserves | Exchange fluctuation reserve | Retained earnings | Total      |         |                           |              |
| Notes |   | RMB'000                                      | RMB'000       | RMB'000             | RMB'000         | RMB'000              | RMB'000                   | RMB'000                              | RMB'000            | RMB'000                      | RMB'000           | RMB'000    | RMB'000 |                           |              |
|       | <b>At 1 January 2010</b>                                  | 382,408                                      | 7,441,991     | 657                 | 163,509         | 70,533               | 98,009                    | 59,400                               | 936,719            | (203,014)                    | 2,852,253         | 11,802,465 | -       | 11,802,465                |              |
|       | Profit for the period                                     | -  | -             | -                   | -               | -                    | -                         | -                                    | -                  | -                            | 962,326           | 962,326    | -       | 962,326                   |              |
|       | Changes in fair value of other investments                | -  | -             | -                   | -               | -                    | -                         | (25,650)                             | -                  | -                            | -                 | (25,650)   | -       | (25,650)                  |              |
|       | Exchange differences on translation of foreign operations | -  | -             | -                   | -               | -                    | -                         | -                                    | -                  | 161                          | -                 | 161        | -       | 161                       |              |
|       | <b>Total comprehensive income/ (loss) for the period</b>  | -  | -             | -                   | -               | -                    | -                         | (25,650)                             | -                  | 161                          | 962,326           | 936,837    | -       | 936,837                   |              |
|       | Redemption of the Old 2014 Convertible Bonds              | 20(j)  | -             | -                   | (683,330)       | -                    | -                         | -                                    | -                  | -                            | -                 | (683,330)  | -       | (683,330)                 |              |
|       | Equity-settled share option arrangements                  | 22   | -             | -                   | -               | 57,607               | -                         | -                                    | -                  | -                            | -                 | 57,607     | -       | 57,607                    |              |
|       | Wind-up of a subsidiary                                   | -  | -             | -                   | -               | -                    | -                         | -                                    | (11)               | -                            | -                 | (11)       | -       | (11)                      |              |
|       | <b>At 30 June 2010 (unaudited)</b>                        | 382,408                                      | 7,441,991     | 657                 | (519,821)       | 128,140              | 98,009                    | 33,750                               | 936,708            | (202,853)                    | 3,814,579         | 12,113,568 | -       | 12,113,568                |              |

# Interim Condensed Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2011

|  | Notes | For the six-month period<br>ended 30 June |                                |
|--|-------|---|--------------------------------|
|  |       | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |       |   |                                |
| Profit before tax  |       | <b>1,666,433</b>                          | 1,255,784                      |
| Adjustments for:   |       |   |                                |
| Finance income   | 6     | <b>(188,148)</b>                          | (167,871)                      |
| Finance costs  | 6     | <b>118,727</b>                            | 271,707                        |
| Loss on the derivative component of convertible bonds                      | 5     | <b>233</b>                                | 92,351                         |
| Gain on redemption of convertible bonds                                    | 5     | -   | (202,578)                      |
| Fair value loss on Hong Kong listed investments                            | 5     | -   | 29                             |
| Fair value gain on investment properties                                   | 4     | <b>(2,994)</b>                            | (436)                          |
| (Gain) /loss on disposal of items of property<br>and equipment             | 5     | <b>(17,032)</b>                           | 1,440                          |
| Depreciation   | 5     | <b>175,983</b>                            | 156,380                        |
| Amortisation of intangible assets  | 5     | <b>4,611</b>                              | 4,521                          |
| Equity-settled share option expense  | 22    | <b>19,959</b>                             | 57,607                         |
|  |       | <b>1,777,772</b>                          | 1,468,934                      |
| (Increase)/decrease in long term lease prepayments                         |       | <b>(4,991)</b>                            | 10,609                         |
| (Increase)/decrease in inventories   |       | <b>(418,800)</b>                          | 738,593                        |
| Decrease/(increase) in trade and bills receivables                         |       | <b>57,749</b>                             | (24,537)                       |
| Decrease/(increase) in prepayments, deposits<br>and other receivables      |       | <b>54,947</b>                             | (104,670)                      |
| Decrease in amounts due from related parties                               |       | <b>134,031</b>                            | 67,193                         |
| Decrease in pledged deposits   |       | <b>32,874</b>                             | 1,381,339                      |
| Increase in trade and bills payables                                       |       | <b>1,560,751</b>                          | 398,407                        |
| Increase/(decrease) in customers' deposits,<br>other payables and accruals |       | <b>116,168</b>                            | (644,264)                      |
| Decrease in amounts due to related parties                                 |       | <b>(86,725)</b>                           | -                              |
| Cash generated from operations   |       | <b>3,223,776</b>                          | 3,291,604                      |
| Interest received  |       | <b>179,285</b>                            | 167,784                        |
| Dividend paid  |       | <b>(587,455)</b>                          | -                              |
| PRC income tax paid  |       | <b>(413,051)</b>                          | (333,461)                      |
| Net cash flows from operating activities                                   |       | <b>2,402,555</b>                          | 3,125,927                      |

## Interim Condensed Consolidated Statement of Cash Flows (continued)

For the six-month period ended 30 June 2011

|  | Notes | For the six-month period<br>ended 30 June |                                |
|--|-------|---|--------------------------------|
|  |       | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| Net cash flows from operating activities   |       | <b>2,402,555</b>                          | 3,125,927                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |       |   |                                |
| Purchases of items of property and equipment   |       | <b>(351,659)</b>                          | (154,443)                      |
| Proceeds from disposal of items of property and equipment                                |       | <b>39,973</b>                             | 5,368                          |
| Acquisition of subsidiaries, net of cash acquired  | 23    | <b>41,835</b>                             | -                              |
| Increase in financial asset at fair value through profit or loss                         | 12    | <b>(200,000)</b>                          | -                              |
| Proceeds from disposals of Hong Kong listed investments                                  |       | -   | 1,606                          |
| Net cash flows used in investing activities  |       | <b>(469,851)</b>                          | (147,469)                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |       |   |                                |
| Redemption of convertible bonds  |       | -   | (2,685,508)                    |
| New bank loans   |       | -   | 100,000                        |
| Repayment of bank loans  |       | -   | (350,000)                      |
| Exercise of share options  |       | <b>81,256</b>                             | -                              |
| Exercise of warrants   |       | <b>164,425</b>                            | -                              |
| Interest paid  |       | <b>(38,340)</b>                           | (82,559)                       |
| Net cash flows from/(used in) financing activities                                       |       | <b>207,341</b>                            | (3,018,067)                    |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              |       |   |                                |
| Cash and cash equivalents at 1 January   |       | <b>6,232,450</b>                          | 6,029,059                      |
| Effect of foreign exchange rate changes, net   |       | <b>25,698</b>                             | 225                            |
| <b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>  |       | <b>8,398,193</b>                          | 5,989,675                      |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>                                 |       |   |                                |
| Cash and bank balances   | 17    | <b>7,580,418</b>                          | 5,989,675                      |
| Non-pledged time deposits with original maturity of less than three months when acquired |       | <b>817,775</b>                            | -                              |
|  |       | <b>8,398,193</b>                          | 5,989,675                      |

# Notes to the Interim Financial Information

As at 30 June 2011

## 1. CORPORATE INFORMATION

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

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

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

### Basis of preparation

The unaudited interim financial information for the six-month period ended 30 June 2011 (the “**Interim Financial Information**”) has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (“**IASB**”).

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2010.

### New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2010, except for the adoption of the new International Financial Reporting Standards (“**IFRSs**”) and International Financial Reporting Interpretations Committee (“**IFRIC**”) interpretations as of 1 January 2011 as noted below:

#### IFRS 1 Amendment *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The amendment permitted first-time adopters of IFRSs to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*. The amendment had no effect on the financial position or performance of the Group.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

#### **New standards, interpretations and amendments thereof, adopted by the Group *(continued)***

##### *IAS 24 Related Party Disclosures (Amendment)*

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

##### *IAS 32 Financial Instruments: Presentation (Amendment)*

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group.

##### *IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group is not subject to minimum funding requirements. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

##### *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

The interpretation clarifies the accounting by the debtor when the debtor renegotiates the terms of its debt with the result that the liability is extinguished through issuing its own equity instruments to the creditor (i.e. a "debt for equity swap"). A gain or loss recognised in profit or loss is the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. This interpretation applies to all debtors that enter into debt for equity swap transactions in full or partial settlement of a financial liability. As the Group did not undertake such transactions, the interpretation had no effect on the financial position or performance of the Group.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

#### **New standards, interpretations and amendments thereof, adopted by the Group (continued)**

##### *Improvements to IFRSs (issued May 2010)*

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

**IFRS 3 Business Combinations:** The measurement options available for non-controlling interest (“**NCI**”) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

**IFRS 7 Financial Instruments – Disclosures:** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

**IAS 1 Presentation of Financial Reporting:** The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The Group has illustrated those amendments in the condensed consolidated statement of changes in equity.

**IAS 34 Interim Financial Statements:** The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group has illustrated those amendments in note 28 to the Interim Financial Information.

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

**IFRS 3 Business Combinations – Clarification** that contingent considerations arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).

**IFRS 3 Business Combinations – Unreplaced and voluntarily replaced share-based payment awards** and their accounting treatment within a business combination.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

#### **New standards, interpretations and amendments thereof, adopted by the Group (continued)**

*Improvements to IFRSs (issued May 2010) (continued)*

*IAS 27 Consolidated and Separate Financial Statements* – Applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.

*IFRIC 13 Customer Loyalty Programmes* – In determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

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

### 3. SEGMENT INFORMATION

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

Management monitors the results of the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, unallocated income and gains, finance costs, the fair value loss on the derivative component of convertible bonds, the gain on redemption of the Old 2014 Convertible Bonds and other corporate and unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, other investments and derivative component of convertible bonds as these assets are managed on a group basis.

Segment liabilities exclude an interest-bearing bank loan, convertible bonds, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

## 3. SEGMENT INFORMATION (continued)

|   | Six-month<br>period ended<br>30 June 2011<br>(Unaudited)<br>RMB'000 | Six-month<br>period ended<br>30 June 2010<br>(Unaudited)<br>RMB'000 |
|---|---|---|
| <b>Segment revenue</b>                                |   |   |
| Sales to external customers                           | <b>29,805,550</b>   | 24,873,283  |
| <b>Segment results</b>                                | <b>1,746,202</b>  | 1,430,976   |
| <i>Reconciliation</i>                                 |   |   |
| Bank interest income                                  | <b>101,387</b>  | 81,110  |
| Unallocated income and gains                          | <b>3,807</b>  | 822   |
| Loss on the derivative component of convertible bonds | <b>(233)</b>  | (92,351)  |
| Gain on redemption of the Old 2014 Convertible Bonds  | -   | 202,578   |
| Finance costs   | <b>(118,727)</b>  | (271,707)   |
| Corporate and other unallocated expenses              | <b>(66,003)</b>   | (95,644)  |
| Profit before tax                                     | <b>1,666,433</b>  | 1,255,784   |
|   | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b>                 | 31 December<br>2010<br>(Audited)<br>RMB'000                         |
| <b>Segment assets</b>                                 | <b>24,097,835</b>   | 23,542,110  |
| <i>Reconciliation</i>                                 |   |   |
| Corporate and other unallocated assets                | <b>14,842,118</b>   | 12,675,152  |
| <b>Total assets</b>                                   | <b>38,939,953</b>   | 36,217,262  |
| <b>Segment liabilities</b>                            | <b>20,460,373</b>   | 18,817,508  |
| <i>Reconciliation</i>                                 |   |   |
| Corporate and other unallocated liabilities           | <b>2,752,574</b>  | 2,664,567   |
| <b>Total liabilities</b>                              | <b>23,212,947</b>   | 21,482,075  |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

|  | Notes | For the six-month period<br>ended 30 June |                        |
|--|-------|---|------------------------|
|  |       | 2011                                      | 2010                   |
|  |       | (Unaudited)<br>RMB'000                    | (Unaudited)<br>RMB'000 |
| <b>Revenue</b>   |       |   |                        |
| Sale of electrical appliances and consumer electronic products |       | <b>29,805,550</b>                         | 24,873,283             |
| <b>Other income</b>  |       |   |                        |
| Income from suppliers  |       | <b>1,088,844</b>                          | 1,101,565              |
| Management and purchasing service fees:                        |       |   |                        |
| – from the Non-listed GOME Group                               | (i)   | <b>185,743</b>                            | 138,931                |
| – from Dazhong Appliances                                      | (ii)  | <b>42,311</b>                             | 44,968                 |
| Management fees for air-conditioner installation               |       | <b>63,015</b>                             | 60,169                 |
| Gross rental income  |       | <b>112,595</b>                            | 89,864                 |
| Government grants  | (iii) | <b>51,506</b>                             | 47,925                 |
| Other service fee income                                       |       | <b>51,264</b>                             | 48,643                 |
| Commission income from sale of mobile phone cards              |       | <b>77,137</b>                             | 7,927                  |
| Others   |       | <b>44,635</b>                             | 23,603                 |
|  |       | <b>1,717,050</b>                          | 1,563,595              |
| <b>Gains</b>   |       |   |                        |
| Fair value gain on investment properties                       |       | <b>2,994</b>                              | 436                    |
| Gain on disposal of items of property and equipment            |       | <b>17,032</b>                             | -                      |
|  |       | <b>20,026</b>                             | 436                    |
|  |       | <b>1,737,076</b>                          | 1,564,031              |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 4. REVENUE, OTHER INCOME AND GAINS (continued)

Notes:

- (i) The Non-listed GOME Group is defined in note 26(a) to the Interim Financial Information.
- (ii) The Group entered into a management agreement (the “**Management Agreement**”) with Beijing Zhansheng Investment Co., Ltd. (“**Beijing Zhansheng**”) on 14 December 2007 and the Management Agreement was renewed on 15 December 2009. Pursuant to the Management Agreement, the Group manages and operates the retailing business of Beijing Dazhong Home Appliances Retail Co., Ltd. (“**Dazhong Appliances**”) for management fees.
- (iii) Various local government grants were received to reward the Group’s contributions to the local economy. There was no unfulfilled condition or contingency attaching to these government grants.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 5. PROFIT BEFORE TAX

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

|   | Notes | For the six-month period<br>ended 30 June |                                |
|---|-------|---|--------------------------------|
|   |       | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| Cost of inventories sold  |       | <b>26,076,876</b>                         | 22,199,502                     |
| Depreciation  |       | <b>175,983</b>                            | 156,380                        |
| Amortisation of intangible assets   | (i)   | <b>4,611</b>                              | 4,521                          |
| (Gain)/loss on disposal of items of property<br>and equipment                     |       | <b>(17,032)</b>                           | 1,440                          |
| Minimum lease payments under operating leases<br>in respect of land and buildings |       | <b>1,254,333</b>                          | 982,737                        |
| Gross rental income   | 4     | <b>(112,595)</b>                          | (89,864)                       |
| Fair value gain on investment properties  | 4     | <b>(2,994)</b>                            | (436)                          |
| Interest income from Beijing Zhansheng  | 6     | <b>(86,761)</b>                           | (86,761)                       |
| Staff costs:  |       |   |                                |
| Wages, salaries and bonuses   |       | <b>905,746</b>                            | 566,119                        |
| Pension scheme contributions  |       | <b>173,038</b>                            | 112,610                        |
| Social welfare and other costs  |       | <b>6,333</b>                              | 11,280                         |
| Equity-settled share option expense   | 22    | <b>19,959</b>                             | 57,607                         |
|   |       | <b>1,105,076</b>                          | 747,616                        |
| Loss on the derivative component of<br>convertible bonds                          | 20(i) | <b>233</b>                                | 92,351                         |
| Gain on redemption of the Old 2014<br>Convertible Bonds                           | 20(i) | -   | (202,578)                      |
| Fair value loss on Hong Kong listed investments                                   |       | -   | 29                             |
| Foreign exchange differences, net   |       | <b>19,908</b>                             | 13,784                         |

Note:

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

**6. FINANCE (COSTS)/INCOME**

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

|   | Notes | For the six-month period<br>ended 30 June |                                |
|---|-------|---|--------------------------------|
|   |       | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| Finance costs:  |       |   |                                |
| Interest on a bank loan wholly repayable<br>within five years |       | (2,982)                                   | (7,451)                        |
| Interest expenses on convertible bonds                        | 20    | (115,745)                                 | (264,256)                      |
|   |       | <b>(118,727)</b>                          | <b>(271,707)</b>               |
| Finance income:   |       |   |                                |
| Bank interest income  |       | 101,387                                   | 81,110                         |
| Other interest income   | 11    | 86,761                                    | 86,761                         |
|   |       | <b>188,148</b>                            | <b>167,871</b>                 |

**7. INCOME TAX EXPENSE**

An analysis of the provision for tax is as follows:

|                                 | For the six-month period<br>ended 30 June |                                |
|---------------------------------|---|--------------------------------|
|                                 | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| Current income tax – PRC        | 439,078                                   | 292,094                        |
| Deferred income tax             | (17,299)                                  | 1,364                          |
| Total tax charge for the period | <b>421,779</b>                            | <b>293,458</b>                 |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 7. INCOME TAX EXPENSE (continued)

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

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month period ended 30 June 2010: 25%) on their respective taxable income. During the current period, 28 entities (six-month period ended 30 June 2010: 30 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates.

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

No provision for Hong Kong profits tax has been made for the six-month periods ended 30 June 2011 and 2010, as the Group had no assessable profits arising in Hong Kong for each of the periods.

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares of 16,810,807,000 (six-month period ended 30 June 2010: 15,055,332,000) in issue during the period.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

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

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

|   | For the six-month period<br>ended 30 June |                                |
|---|---|--------------------------------|
|   | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| <b>Earnings</b>   |   |                                |
| Profit attributable to ordinary equity holders of<br>the parent company used in the basic earnings<br>per share calculation | <b>1,251,849</b>                          | 962,326                        |
| Interest on the Old 2014 Convertible Bonds  | -   | 49,988                         |
| Fair value loss on the derivative component of<br>the Old 2014 Convertible Bonds  | -   | 92,351                         |
| Gain on redemption of the Old 2014 Convertible Bonds  | -   | (202,578)                      |
| Profit attributable to ordinary equity holders of<br>the parent company as adjusted for the effect of dilution              | <b>1,251,849</b>                          | 902,087                        |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

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

|  | Notes | Number of shares for the<br>six-month period<br>ended 30 June |                             |
|--|-------|---|-----------------------------|
|  |       | 2011<br>(Unaudited)<br>'000                                   | 2010<br>(Unaudited)<br>'000 |
| <b>Shares</b>  |       |   |                             |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation |       | <b>16,810,807</b>   | 15,055,332                  |
| Effect of dilution – weighted average number of ordinary shares:   |       |   |                             |
| Warrants   | (i)   | <b>5,345</b>  | 34,272                      |
| Share options  |       | <b>82,084</b>   | 33,605                      |
| Convertible bonds  | (ii)  | <b>-</b>  | 491,084                     |
|  |       | <b>16,898,236</b>   | 15,614,293                  |

Notes:

- (i) On 28 January 2006 and 28 February 2006, the Company and Warburg Pincus Private Equity IX, L.P. (“**Warburg Pincus**”) entered into a subscription agreement and a supplemental agreement respectively, pursuant to which the Company issued warrants at a subscription price of US\$3,000,000 to a subsidiary of Warburg Pincus on 1 March 2006. The holder of the warrants is entitled to subscribe for a maximum amount of US\$25,000,000 of new shares of the Company during an exercise period of five years commencing from 1 March 2006 (the “**Warrants**”).

The Company received an exercise notice from the holder of the Warrants (the “**Warrantholder**”) on 17 January 2011 to exercise in full its right under the Warrants to subscribe for new ordinary shares in the Company of HK\$0.025 each in the amount of US\$25,000,000. An aggregate of 108,790,252 ordinary shares have been issued by the Company to the Warrantholder on 24 January 2011 at an exercise price of US\$0.2298 per share. After the exercise of the Warrants, the Company does not have any outstanding Warrants.

- (ii) The Old 2014 Convertible Bonds and the New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the six-month period ended 30 June 2011 and were therefore not included in the calculation of diluted earnings per share.

The 2016 Convertible Bonds, which were fully converted on 15 September 2010, and the New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the six-month period ended 30 June 2010 and were therefore not included in the calculation of diluted earnings per share. Therefore, only the effect of the Old 2014 Convertible Bonds was included in the calculation of diluted earnings per share for the six-month period ended 30 June 2010. The Old 2014 Convertible Bonds that were redeemed during the six-month period ended 30 June 2010 were included in the calculation of diluted earnings per share only for the portion of the period during which they were outstanding.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 9. PROPERTY AND EQUIPMENT

During the six-month period ended 30 June 2011, the Group acquired items of property and equipment at a total cost of RMB376.5 million (six-month period ended 30 June 2010: RMB154.4 million). Items of property and equipment with a net carrying amount of RMB22.9 million (six-month period ended 30 June 2010: RMB6.8 million) were disposed of during the six-month period ended 30 June 2011.

Certain of the buildings of the Group were pledged as security for a bank loan and bills payable (note 19) of the Group as at 30 June 2011. The aggregate carrying amount of the pledged buildings owned by the Group as at 30 June 2011 amounted to RMB1,518,200,000 (31 December 2010: RMB1,589,660,000).

### 10. OTHER INVESTMENTS

|                                       | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|---------------------------------------|---|---|
| PRC equity investments, at fair value | <b>163,148</b>                                      | 127,710                                     |

The balance as at 30 June 2011 represented the fair value of the Group's investments in 27,000,000 shares, representing approximately 10.7% of the outstanding issued shares, of Sanlian Commercial Co., Ltd. ("Sanlian"). Sanlian is a company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 30 June 2011 and 31 December 2010. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

According to Sanlian's announcement dated 17 May 2010, on 14 May 2010, Sanlian received a "Decision on the Suspension from Trading of the Stocks of Sanlian Shangshe Joint Stock Company" issued by the Shanghai Stock Exchange. Pursuant to this decision, Sanlian's shares were officially suspended from trading on 25 May 2010 as Sanlian had incurred losses for three consecutive years up to 31 December 2009.

According to Sanlian's announcement dated 18 July 2011, Sanlian received a decision from the Shanghai Stock Exchange, pursuant to which, Sanlian's shares were officially re-listed for trading on 25 July 2011.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 10. OTHER INVESTMENTS (continued)

Of the seven directors of Sanlian, five were nominated by the Group. With reference to Sanlian's memorandum and articles of association and by taking into account the current shareholding structure of Sanlian, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to it and thus the Group does not have control or significant influence over Sanlian.

As at 30 June 2011, the fair value of these investments is determined by the directors of the Company, based on various sources of information and assumptions, at RMB6.04 (31 December 2010: RMB4.73) per share.

During the six-month period ended 30 June 2011, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB3,564,000 (six-month period ended 30 June 2010: RMB829,000).

### 11. DESIGNATED LOANS

#### The designated loan to Huihai

The designated loan (the "**Huihai Loan**") of RMB48 million as at 31 December 2010 represented the aggregate amount of a loan provided to Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("**Huihai**") through the Beijing branch of China Bohai Bank Co., Ltd.. The Huihai Loan was to be used by Huihai for the sole purpose of capital injection into Kuba Technology (Beijing) Co., Ltd. ("**Kuba**") to acquire an 80% equity interest in Kuba. The Huihai Loan had a term of five years and bore interest at a rate of 4.86% per annum, which was determined by reference to the interest rate published by the People's Bank of China. In January 2011, the Group acquired Huihai which became a subsidiary of the Company and this intra-group designated loan has been eliminated on consolidation.

#### The designated loan to Beijing Zhansheng

The designated loan of RMB3,600 million as at 30 June 2011 (31 December 2010: RMB3,600 million) represented the aggregate amount of loans provided to Beijing Zhansheng by the Group, through the Beijing branch of Industrial Bank Co., Ltd.. The loan had a maturity date on 12 December 2009 and the interest rate of 5.103% per annum. On 15 December 2009, the designated loan was renewed to 14 December 2011 with an interest rate of 4.86% per annum.

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 11. DESIGNATED LOANS (continued)

#### The designated loan to Beijing Zhansheng (continued)

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

As at the date of the Interim Financial Information, the board of directors of the Company is considering to exercise the Purchase Option on Dazhong Appliances in the near future.

### 12. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|---|---|---|
| Unlisted debt investment, at fair value | <b>200,000</b>                                      | -   |

The above debt investment at 30 June 2011 was classified as held for trading upon initial recognition, designated by the Group as financial asset at fair value through profit or loss.

### 13. INVENTORIES

|                        | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|------------------------|---|---|
| Merchandise for resale | <b>8,432,847</b>                                    | 7,990,540                                   |
| Consumables            | <b>88,261</b>                                       | 94,431                                      |
|                        | <b>8,521,108</b>                                    | 8,084,971                                   |

As at 30 June 2011, the Group's inventories amounting to RMB540 million (31 December 2010: RMB500 million) were pledged as security for the Group's bank loan (note 18) and bills payable (note 19).

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 14. TRADE AND BILLS RECEIVABLES

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

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

|                             | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|-----------------------------|---|---|
| Outstanding balances, aged: |   |   |
| Within 3 months             | <b>146,910</b>                                      | 204,240                                     |
| 3 to 6 months               | <b>178</b>  | 1,489                                       |
| 6 months to 1 year          | <b>1,045</b>  | 284   |
| Over 1 year                 | <b>220</b>  | 89  |
|                             | <b>148,353</b>                                      | 206,102                                     |

The balance at 30 June 2011 included the trade receivables from Dazhong Appliances of RMB54,392,000 (31 December 2010: RMB118,223,000). During the six-month period ended 30 June 2011, the Group sold electrical appliances and consumer electronic products to Dazhong Appliances amounting to RMB1,132.6 million (six-month period ended 30 June 2010: RMB78.5 million).

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

## 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|   |       | 30 June<br>2011<br>(Unaudited)<br>RMB'000 | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|---|-------|---|---|
|   | Notes |   |   |
| Prepayments   | (i)   | 538,068                                   | 442,914                                     |
| Advances to suppliers                                 |       | 489,925                                   | 586,027                                     |
| Other deposits and receivables                        |       | 1,045,942                                 | 1,106,263                                   |
| Receivables from Wuhan Yinhe                          | (ii)  | 166,586                                   | 166,586                                     |
| Receivable from a property vendor                     | (iii) | 21,129                                    | 21,129                                      |
| Management fees receivable from<br>Dazhong Appliances | (iv)  | 143,888                                   | 123,132                                     |
|   |       | <b>2,405,538</b>                          | <b>2,446,051</b>                            |

## Notes:

- (i) The balance included the current portion of the rental prepayments to Beijing Centergate Technologies (Holding) Co., Ltd. ("**Centergate Technologies**"), a related company as detailed in note 26(a) to the Interim Financial Information, amounting to RMB6,612,000 (note 26(a)(vi)) as at 30 June 2011 (31 December 2010: RMB6,612,000).
- (ii) On 13 July 2008, the Group entered into a sale and purchase agreement with Wuhan Yinhe Property Co., Ltd. ("**Wuhan Yinhe**"), an independent third party vendor, to acquire the first to the fourth floors of a commercial property located in Wuhan, the PRC, at a total cash consideration of RMB214,629,000. Pursuant to the agreement, the Group paid an amount of RMB107,315,000, representing 50% of the total purchase consideration, to the vendor in 2008 and the remaining balance was payable upon the completion and handover of the property.

Due to the default of the vendor to fulfill its obligation under the sale and purchase agreement, on 6 July 2009, the Group applied to the Hubei Provincial People's High Court (the "**Hubei Court**") to freeze the assets of Wuhan Yinhe up to an amount of RMB135,808,000. On 21 July 2009, the court granted an injunction and froze the first, the second and the fourth floors of the property. In July 2010, the Group applied to the Hubei Court to freeze the third floor of the property and the Hubei Court granted an injunction on 23 July 2010.

On 30 July 2009, the Group filed a civil complaint against Wuhan Yinhe with the Hubei Court. On 25 November 2009, the Intermediate People's Court of Huanggang City, Hubei Province, issued the civil judgement and ordered: (i) the sale and purchase agreement and its supplementary agreement are void; (ii) Wuhan Yinhe shall refund the consideration paid by the Group of RMB107,315,000 to the Group; (iii) Wuhan Yinhe shall pay interest of RMB5,638,000 and damages of RMB38,633,000 to the Group; and (iv) Wuhan Yinhe shall pay other damages to the Group in the amount of RMB15,000,000. Wuhan Yinhe did not raise any appeal within the time limit. The directors of the Company have consulted the Group's PRC legal advisers and consider that the decision is final and binding. The aggregate amount of the compensation in items (iii) and (iv) above of approximately RMB59,271,000 has been recognised as income in the Group's income statement for the year ended 31 December 2009.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

(ii) (continued)

Up to 30 June 2011, the Group has not yet to receive the above repayment and compensation amounting to RMB166,586,000. In February 2011, the Group applied for enforcement of the court decision and the frozen properties are in the process of auction.

(iii) The balance represented a deposit made by the Group for acquisition of certain commercial properties in the PRC. Due to the breach of contract by the vendor, the commercial properties were not delivered and the Group filed a civil action against the vendor in January 2010. The judgement made by the court of first instance was in favour of the Group. In June 2011, the vendor appealed to a higher court for judgement. In the opinion of the directors, the Group is able to recover the receivable.

(iv) In the opinion of the directors, the management fees receivable from Dazhong Appliances will be settled before the end of 2011.

### 16. DUE FROM/TO RELATED PARTIES

|  |              | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|--|--------------|---|---|
|  | <b>Notes</b> | <b>RMB'000</b>                                      | <b>RMB'000</b>                              |
| <u>Due from related parties</u>            |              |   |   |
| Receivables from the Non-listed GOME Group | (i)          | <b>117,149</b>                                      | 246,607                                     |
| Others                                     | (ii)         | <b>110</b>  | 4,683                                       |
|  |              | <b>117,259</b>                                      | 251,290                                     |
| <u>Due to related parties</u>              |              |   |   |
| Payables to the Non-listed GOME Group      | (iii)        | <b>11,101</b>                                       | 97,826                                      |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 16. DUE FROM/TO RELATED PARTIES (continued)

Notes:

- (i) The balance mainly represented the management and purchasing service fees and trade receivables due from the Non-listed GOME Group (note 26(a)(i) and note 26(a)(ii)). The aforesaid balance is interest-free, unsecured and has no fixed terms of repayment.
- (ii) The balance as at 31 December 2010 included receivables from Mr. Chen Xiao, a former director of the Company who resigned on 10 March 2011, of RMB811,000 and other key management personnel of the Group of RMB3,000,000.
- (iii) The balance represented rental expenses and other expenses payable to the Non-listed GOME Group (note 26(a)(iii)).

### 17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

|                              | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|------------------------------|---|---|
| Cash and bank balances       | <b>7,580,418</b>                                    | 5,716,500                                   |
| Time deposits                | <b>7,053,031</b>                                    | 6,784,080                                   |
|                              | <b>14,633,449</b>                                   | 12,500,580                                  |
| Less: Pledged time deposits: |   |   |
| Pledged for bills payable    | <b>(6,235,256)</b>                                  | (6,268,130)                                 |
| Cash and cash equivalents    | <b>8,398,193</b>                                    | 6,232,450                                   |

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB14,345,969,000 (31 December 2010: RMB12,086,775,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 18. INTEREST-BEARING BANK LOAN

|  | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|--|---|---|
| PRC bank loan – secured, within one year | <b>100,000</b>                                      | 100,000                                     |

The Group's bank loan is denominated in RMB and bears interest at 5.31% (2010: 5.31%) per annum.

The Group's bank loan is secured by guarantees and pledges as set out in note 19.

The carrying amount of the Group's bank loan approximates to its fair value.

### 19. TRADE AND BILLS PAYABLES

|                | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|----------------|---|---|
| Trade payables | <b>5,624,622</b>                                    | 5,757,564                                   |
| Bills payable  | <b>12,849,312</b>                                   | 11,142,119                                  |
|                | <b>18,473,934</b>                                   | 16,899,683                                  |

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

|                 | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|-----------------|---|---|
| Within 3 months | <b>12,995,956</b>                                   | 8,163,552                                   |
| 3 to 6 months   | <b>5,315,244</b>                                    | 8,443,194                                   |
| Over 6 months   | <b>162,734</b>                                      | 292,937                                     |
|                 | <b>18,473,934</b>                                   | 16,899,683                                  |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 19. TRADE AND BILLS PAYABLES (continued)

The Group's bills payable and PRC bank loan (note 18) above are secured by:

- (i) the pledge of the Group's time deposits (note 17);
- (ii) the pledge of certain of the Group's inventories (note 13);
- (iii) the pledge of certain of the Group's buildings (note 9);
- (iv) the pledge of certain of the Group's investment properties with an aggregate fair value of RMB677,890,000 (31 December 2010: RMB751,150,000); and
- (v) the corporate guarantees provided by the Non-listed GOME Group (note 26(a)(iv)).

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

### 20. CONVERTIBLE BONDS

|                                   |              | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|-----------------------------------|--------------|---|---|
|                                   | <b>Notes</b> |   |   |
| Liability components:             |              |   |   |
| Old 2014 Convertible Bonds        | <i>(i)</i>   | <b>133,663</b>                                      | 129,976                                     |
| 2016 Convertible Bonds            | <i>(ii)</i>  | -   | -   |
| New 2014 Convertible Bonds        | <i>(iii)</i> | <b>1,890,769</b>                                    | 1,814,069                                   |
|                                   |              | <b>2,024,432</b>                                    | 1,944,045                                   |
| Classified as current liabilities |              | <b>(133,663)</b>                                    | (129,976)                                   |
| Non-current liabilities           |              | <b>1,890,769</b>                                    | 1,814,069                                   |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 20. CONVERTIBLE BONDS (continued)

Notes:

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

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

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

- (a) convertible at the option of the bondholders into fully paid ordinary shares at anytime from 18 May 2008 to 11 May 2014 at a conversion price of HK\$19.95 (at a fixed exchange rate of RMB0.9823 to HK\$1.00) per share;
- (b) redeemable at the option of the bondholders on 18 May 2010, being the third anniversary of the issue date, in a USD amount equivalent to their RMB principal amount multiplied by 102.27% and on 18 May 2012, being the fifth anniversary of the issue date, in a USD amount equivalent to their RMB principal amount multiplied by 103.81%; and
- (c) redeemable at the option of the Company at any time after 18 May 2010 and prior to 18 May 2014 in all or some only of the bonds for the time being outstanding at a USD amount equivalent to their early redemption amount as at the date fixed for redemption, provided that the prices of the Company’s shares for each of 20 consecutive trading days are over 130% of the early redemption price.

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

The conversion price of the Old 2014 Convertible Bonds was HK\$4.46 per share as at 31 December 2010 and 30 June 2011. No adjustment was made to the conversion price during the six-month period ended 30 June 2011.

On 18 May 2010, the Company redeemed part of the Old 2014 Convertible Bonds with an aggregate principal amount of RMB2,625,900,000 pursuant to redemption notices received from the bondholders in accordance with the terms and conditions of the Old 2014 Convertible Bonds. The bonds redeemed were cancelled.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 20. CONVERTIBLE BONDS (continued)

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

As at 30 June 2011, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB149,400,000 remained outstanding.

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

|   | Liability<br>component of<br>convertible<br>bonds<br>RMB'000 | Derivative<br>component of<br>convertible<br>bonds<br>RMB'000 | Equity<br>component of<br>convertible<br>bonds<br>RMB'000 | Total<br>RMB'000 |
|---|--|---|---|------------------|
| At 31 December 2010 and<br>1 January 2011 (audited) | 129,976  | (7,349)   | 287,483   | 410,110          |
| Interest expenses                                   | 3,687  | -   | -   | 3,687            |
| Fair value adjustment                               | -  | 233   | -   | 233              |
| At 30 June 2011 (unaudited)                         | 133,663  | (7,116)   | 287,483   | 414,030          |
|   | Liability<br>component of<br>convertible<br>bonds<br>RMB'000 | Derivative<br>component of<br>convertible<br>bonds<br>RMB'000 | Equity<br>component of<br>convertible<br>bonds<br>RMB'000 | Total<br>RMB'000 |
| At 31 December 2009 and<br>1 January 2010 (audited) | 2,281,046  | (100,689)   | 970,813   | 3,151,170        |
| Interest expenses                                   | 49,988   | -   | -   | 49,988           |
| Fair value adjustment                               | -  | 92,351  | -   | 92,351           |
| Redemption of bonds                                 | (2,204,756)  | -   | (683,330)   | (2,888,086)      |
| At 30 June 2010 (unaudited)                         | 126,278  | (8,338)   | 287,483   | 405,423          |

The fair values of the derivative component are determined based on the valuations performed by Jones Lang LaSalle Sallmanns Limited, an independent firm of professional valuers, using the applicable option pricing model.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 20. CONVERTIBLE BONDS (continued)

- (ii) *RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the “2016 Convertible Bonds”)*

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

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

- (a) convertible at the option of the bondholder, at any time during the period commencing 30 days after the issue date and ending on the close of business on 3 August 2016, both dates inclusive, in whole, or in any part, of the outstanding principal amount of the bonds into fully-paid shares (at a fixed exchange rate of RMB0.88 to HK\$1.00), at a conversion price of HK\$1.108 per share;
- (b) redeemable at the option of the bondholders on or at any time after the fifth anniversary of the issue date and prior to the bond maturity date in a USD amount equivalent to the principal amount of the bond multiplied by  $1.12^n$ , where “n” equals the number of days from the issue date until the early redemption date (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the early redemption date; and
- (c) redeemable at the option of the bondholders upon the occurrence of a specified event or any of the events default at the USD equivalent of the higher of: (A) the amount equal to 1.5 times the principal amount of the said bond (or, if the maximum amount permitted by applicable law is lower, then such maximum amount permitted by applicable law); and (B) the principal amount of the said bond multiplied by  $1.25^n$ , where “n” equals the number of days from the issue date until the date of redemption (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the date of redemption.

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 20. CONVERTIBLE BONDS (continued)

- (ii) *RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the “2016 Convertible Bonds”) (continued)*

Based on the terms and conditions of the 2016 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fairly valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by independent professional valuers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve at inception.

On 15 September 2010, the 2016 Convertible Bonds were converted in full into 1,630,702,330 conversion shares at the conversion price of HK\$1.108 per conversion share in accordance with the terms of the convertible bonds.

The movements of the liability component and equity component of the 2016 Convertible Bonds during the six-month period ended 30 June 2010 were as follows:

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 20. CONVERTIBLE BONDS (continued)

- (iii) *RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the “New 2014 Convertible Bonds”)*

On 23 September 2009 and 25 September 2009, the Company issued RMB denominated USD settled 3% coupon convertible bonds due 2014 with an aggregate principal amount of RMB2,357.2 million.

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

- (a) convertible at the option of the bondholders on or after 5 November 2009 up to the 10th day prior to 25 September 2014 at a conversion price of HK\$2.8380 (at the fixed rate of HK\$1.1351 to RMB1.00) per share;
- (b) redeemable at the option of the bondholders in all or some only of the bonds on 25 September 2012 at a USD amount equivalent of 103.634% of their RMB principal amount together with interest accrued to the date fixed for redemption; and
- (c) redeemable at the option of the Company at any time after 25 September 2012 in all, but not some only, of the bonds for the time being outstanding at a USD amount equivalent of their early redemption amount as at the date fixed for redemption together with interest accrued to the date fixed for redemption, provided that the closing prices of the Company’s shares for 30 consecutive trading days prior to the date upon which notice of such redemption is published are at least 130% of the early redemption amount of a bond divided by the conversion ratio.

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

The conversion price of the New 2014 Convertible Bonds was adjusted from HK\$2.8380 per share to HK\$2.79 per share (at the fixed rate of HK\$1.1351 = RMB1.00) effective from 11 June 2011 (Hong Kong time) to reflect the effect of 2010 final dividends approved by the shareholders of the Company on 10 June 2011 of HK\$4.1 cents (equivalent to RMB3.5 fen) per share and the change was announced on 21 June 2011.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 20. CONVERTIBLE BONDS (continued)

- (iii) *RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the “New 2014 Convertible Bonds”)* (continued)

Based on the terms and conditions of the New 2014 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fairly valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by independent professional valuers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve as at inception.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The value of the equity component is not remeasured in subsequent years.

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

|   | <b>Liability<br/>component of<br/>convertible<br/>bonds<br/>RMB'000</b> | <b>Equity<br/>component of<br/>convertible<br/>bonds<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|---|---|--|--------------------------|
| At 31 December 2010 and<br>1 January 2011 (audited) | <b>1,814,069</b>  | <b>688,021</b>   | <b>2,502,090</b>         |
| Interest expenses                                   | <b>112,058</b>  | -  | <b>112,058</b>           |
| Interest paid                                       | <b>(35,358)</b>   | -  | <b>(35,358)</b>          |
| At 30 June 2011 (unaudited)                         | <b>1,890,769</b>  | <b>688,021</b>   | <b>2,578,790</b>         |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 20. CONVERTIBLE BONDS (continued)

(iii) RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the “**New 2014 Convertible Bonds**”) (continued)

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

### 21. ISSUED CAPITAL

|  | Number of<br>shares<br>'000 | HK\$'000         | Equivalent to<br>RMB'000 |
|--|-----------------------------|------------------|--------------------------|
| Authorised:  |                             |                  |                          |
| Ordinary shares of HK\$0.025 each at<br>1 January 2011 and 30 June 2011        | <b>200,000,000</b>          | <b>5,000,000</b> | <b>5,300,000</b>         |
| Issued and fully paid:   |                             |                  |                          |
| Ordinary shares of HK\$0.025 each at<br>31 December 2010 and<br>1 January 2011 | <b>16,689,760</b>           | <b>417,244</b>   | <b>417,666</b>           |
| Exercise of warrants (Note (i))  | <b>108,790</b>              | <b>2,720</b>     | <b>2,300</b>             |
| Exercise of share options (Note 22)  | <b>50,980</b>               | <b>1,274</b>     | <b>1,069</b>             |
| Ordinary shares of HK\$0.025 each at<br>30 June 2011                           | <b>16,849,530</b>           | <b>421,238</b>   | <b>421,035</b>           |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 21. ISSUED CAPITAL (continued)

Notes:

- (i) The Company received an exercise notice from the holder of the warrants (the “Warrantholder”) on 17 January 2011 to exercise in full its right under the warrants to subscribe for new ordinary shares in the Company of HK\$0.025 each in the amount of US\$25,000,000. An aggregate of 108,790,252 ordinary shares of HK\$0.025 each were issued by the Company to the Warrantholder on 24 January 2011 at the exercise price of US\$0.2298 per share (equivalent to RMB1.51 per share) and the difference between the par value and aggregate exercise price of RMB162,125,000 has been credited to the share premium account. After the exercise of the warrants, the Company does not have any outstanding Warrants.

### 22. SHARE OPTION SCHEME

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

|  | Six-month period<br>ended 30 June 2011                  |                              | Six-month period<br>ended 30 June 2010                  |                              |
|--|---|------------------------------|---|------------------------------|
|  | Weighted<br>average<br>exercise price<br>HK\$ per share | Number of<br>options<br>'000 | Weighted<br>average<br>exercise price<br>HK\$ per share | Number of<br>options<br>'000 |
| At 1 January                           | 1.90  | 350,974                      | 1.90  | 374,700                      |
| Exercised during the period (note (i)) | 1.90  | (50,980)                     | -   | -                            |
| Forfeited during the period            | 1.90  | (29,250)                     | 1.90  | (10,500)                     |
| At 30 June (unaudited)                 | 1.90  | 270,744                      | 1.90  | 364,200                      |

Note:

- (i) The weighted average share price at the date of exercise for share options exercised during the period was HK\$3.01 per share (six-month period ended 30 June 2010: no share options were exercised).

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 22. SHARE OPTION SCHEME (continued)

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

| <b>30 June 2011</b>      | <b>Exercise price*</b> | <b>Exercise period</b>            |
|--------------------------|------------------------|-----------------------------------|
| <b>Number of options</b> | <b>HK\$ per share</b>  |                                   |
| <b>'000</b>              |                        |                                   |
| <b>35,469</b>            | <b>1.90</b>            | <b>7 July 2010 to 6 July 2019</b> |
| <b>78,425</b>            | <b>1.90</b>            | <b>7 July 2011 to 6 July 2019</b> |
| <b>78,425</b>            | <b>1.90</b>            | <b>7 July 2012 to 6 July 2019</b> |
| <b>78,425</b>            | <b>1.90</b>            | <b>7 July 2013 to 6 July 2019</b> |
| <b>270,744</b>           |                        |                                   |

| <b>30 June 2010</b>      | <b>Exercise price*</b> | <b>Exercise period</b>     |
|--------------------------|------------------------|----------------------------|
| <b>Number of options</b> | <b>HK\$ per share</b>  |                            |
| <b>'000</b>              |                        |                            |
| 91,050                   | 1.90                   | 7 July 2010 to 6 July 2019 |
| 91,050                   | 1.90                   | 7 July 2011 to 6 July 2019 |
| 91,050                   | 1.90                   | 7 July 2012 to 6 July 2019 |
| 91,050                   | 1.90                   | 7 July 2013 to 6 July 2019 |
| <b>364,200</b>           |                        |                            |

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

The Group recognised a share option expense of RMB19,959,000 (six-month period ended 30 June 2010: RMB57,607,000) during the six-month period ended 30 June 2011.

The 50,980,000 share options exercised during the period resulted in the issue of 50,980,000 ordinary shares of the Company of HK\$0.025 each and new share capital of HK\$1,274,000 (equivalent to approximately RMB1,069,000) (note 21) and share premium of HK\$133,977,000 (equivalent to approximately RMB112,392,000).

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 22. SHARE OPTION SCHEME (continued)

At the end of the reporting period, the Company had 270,744,000 share options outstanding under the option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 270,744,000 additional ordinary shares of HK\$0.025 each of the Company and additional share capital of HK\$6,769,000 (equivalent to approximately RMB5,629,000) and share premium of HK\$507,645,000 (equivalent to approximately RMB422,158,000) (before issue expenses and amount transfer from related share option reserve).

At the time of approval of the Interim Financial Information, the Company had 241,401,000 share options outstanding under the option scheme, which represented approximately 1.4% of the Company's shares in issue as at that date.

### 23. BUSINESS COMBINATION

In order to better develop online sales, in January 2011, the Group acquired, via contractual arrangements, Huihai and its 80% of the equity interest of an internet operating company, Kuba, which holds necessary licenses and permits for providing internet information services and other services related to e-business operation.

By entering into various agreements during August 2010 to January 2011, the Group obtained unilateral control over Huihai on January 2011.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 23. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Huihai and Kuba as at the date of acquisition were:

|  | Fair value<br>recognised on<br>acquisition<br>RMB'000 |
|--|---|
| Cash and cash equivalents  | 41,835  |
| Inventories  | 17,337  |
| Other receivables  | 8,571   |
| Property and equipment   | 1,617   |
| Intangible assets  | 1,725   |
| Trade payables   | (13,500)  |
| Customers' deposits and other payables   | (14,323)  |
|  | <hr/>   |
| Total identifiable net assets at fair value  | 43,262  |
| Non-controlling interests  | (8,052)   |
|  | <hr/>   |
| Total identifiable net assets acquired at fair value   | 35,210  |
| Goodwill arising on acquisition  | 15,790  |
|  | <hr/>   |
|  | 51,000  |
|  | <hr/>   |
| Satisfied by:  |   |
| Designated loan  | 48,000  |
| Cash paid in prior year included in amounts due from related parties   | 3,000   |
|  | <hr/>   |
|  | 51,000  |
|  | <hr/>   |
| Net cash and cash equivalents acquired with the subsidiaries<br>(included in cash flows from investing activities) | 41,835  |
|  | <hr/>   |
| Net cash inflow during the period  | 41,835  |
|  | <hr/>   |

Since the acquisition in January 2011, Huihai and Kuba contributed a revenue of RMB365,611,000 and a net loss before tax of RMB35,975,000 to the Group for the six-month period ended 30 June 2011.

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of Huihai and Kuba with those of the Group. None of the recognised goodwill is expected to be deductible for income tax purposes.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 24. DIVIDENDS

|  | For the six-month period<br>ended 30 June |                                |
|--|---|--------------------------------|
|  | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| Final dividend for 2010: HK\$4.1 cents (equivalent to RMB3.5 fen)<br>per ordinary share paid during the period | <b>587,455</b>                            | -                              |
| Proposed interim dividend: HK\$2.7 cents<br>(equivalent to RMB2.2 fen) (2010: nil) per ordinary share          | <b>378,335</b>                            | -                              |

The proposed interim dividend for the six-month period ended 30 June 2011 was approved by the board of directors of the Company on 29 August 2011.

### 25. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

#### (a) Operating lease commitments

##### As lessee

The Group leases certain of its properties under operating lease arrangements. These leases have an average life of between 1 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

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

|   | 30 June<br>2011<br>(Unaudited)<br>RMB'000 | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|---|---|---|
| Within one year                         | <b>2,444,872</b>                          | 2,243,678                                   |
| In the second to fifth years, inclusive | <b>7,578,110</b>                          | 6,964,026                                   |
| After five years                        | <b>3,908,748</b>                          | 3,690,091                                   |
|   | <b>13,931,730</b>                         | 12,897,795                                  |

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

Pursuant to the relevant lease agreements, upon the payment of an early termination compensation rental which in general ranges from one to six months, the Group is entitled to terminate the underlying lease agreement if a store will not be in a position to continue its business because of the losses or other circumstances as specified under the rental agreements.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 25. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

#### (a) Operating lease commitments (continued)

##### As lessor

The Group has leased its investment properties and entered into commercial property subleases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms of between one to fourteen years. The majority of the Group's leases include a clause to enable an upward revision of the rental charge on a regular basis according to prevailing market conditions.

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

|   | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|---|---|---|
| Within one year                         | <b>211,572</b>                                      | 193,513                                     |
| In the second to fifth years, inclusive | <b>557,561</b>                                      | 544,309                                     |
| After five years                        | <b>284,305</b>                                      | 315,666                                     |
|   | <b>1,053,438</b>                                    | 1,053,488                                   |

#### (b) Capital commitments

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

|  | <b>30 June<br/>2011<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|--|---|---|
| Contracted, but not provided for:                    |   |   |
| Acquisition of buildings                             | <b>118,571</b>                                      | 118,571                                     |
| Construction of enterprise resource planning project | <b>46,820</b>                                       | 58,788                                      |
|  | <b>165,391</b>                                      | 177,359                                     |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in notes 10, 15 and 16 to the Interim Financial Information, the Group had the following significant transactions with the related parties during the period.

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

|  | Notes     | For the six-month period<br>ended 30 June |                                |
|--|-----------|---|--------------------------------|
|  |           | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| Sales to the Non-listed GOME Group   | (i)       | 420,161                                   | 175,099                        |
| Purchases from the Non-listed GOME Group   | (i)       | (39,302)                                  | (49,326)                       |
| Provision of management and purchasing services to the Non-listed GOME Group   | (ii),4(i) | 185,743                                   | 138,931                        |
| Rental expenses to Beijing Pengrun Property and Beijing Gome   | (iii)     | (24,241)                                  | (2,112)                        |
| Provision of corporate guarantees from the Non-listed GOME Group   | (iv)      | 30,000                                    | 30,000                         |
| Provision of guarantees from a substantial shareholder, senior management and a former director of the Company in respect of the Group's bills and loan facilities | (iv)      | -   | 500,000                        |
| Rental income from a related party   | (v)       | 207                                       | 261                            |
| Rental expenses to Centergate Technologies   | (vi)      | (3,306)                                   | (3,306)                        |

Beijing Eagle Investment Co., Ltd., Beijing Pengrun Property Co., Ltd. ("**Beijing Pengrun Property**"), Beijing Gome Electrical Appliance Co., Ltd. ("**Beijing Gome**"), Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries are collectively referred to as the "Non-listed GOME Group". Gome Electrical Appliance Retail Co., Ltd. and its subsidiaries are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong Kwong Yu ("**Mr. Wong**"), a substantial shareholder and the former chairman of the Company.

Beijing Xinhengji Property Co., Ltd. ("**Beijing Xinhengji**") is owned by a close member of the family of Mr. Wong. In 2007, Beijing Xinhengji assigned ownership of certain building area to Beijing Pengrun Property and also authorized Beijing Pengrun Property to manage and operate the building area, including receiving and collecting the rentals of the building area, and completion of registration of ownership assignment with the relevant PRC authorities is still pending.

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 26. RELATED PARTY TRANSACTIONS (continued)

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

Notes:

- (i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and the Non-listed GOME Group in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase cost from third party suppliers. The transactions constitute continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- (ii) The Group provides management services to the Non-listed GOME Group in respect of the retailing of electrical appliances and consumer electronic products. In addition, the Group negotiates with various suppliers for both the Group and the Non-listed GOME Group on a centralised basis. During 2009, Jinan Wansheng Yuan Economic Consulting Company Limited (“**Jinan Wansheng Yuan**”), an indirect wholly-owned subsidiary of the Company, entered into a management agreement with the Non-listed GOME Group, pursuant to which Jinan Wansheng Yuan would provide and would procure other members of the Group to provide management services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. In addition, Kunming Hengda Logistics Company Limited (“**Kunming Hengda**”), an indirect wholly-owned subsidiary of the Company, entered into a purchasing service agreement with the Non-listed GOME Group, pursuant to which Kunming Hengda would provide and would procure other members of the Group to provide purchasing services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. The amounts of the management service fee and the purchasing service fee were charged based on 0.6% and 0.9%, respectively, of the total turnover of the Non-listed GOME Group. The transactions constitute continuing connected transactions under the Listing Rules.
- (iii) For the six-month period ended 30 June 2010, the Group incurred rental payable to Beijing Pengrun Property of RMB2,112,000. In addition, Beijing Gome provided certain properties to the Group for use at nil consideration.
- On 18 March 2011, the Group entered into lease agreements and supplemental agreements with Beijing Pengrun Property and Beijing Gome to record and confirm the use and occupation by the Group of some properties in 2009 and 2010 and to revise rentals for these two years. The Group also entered into lease agreements with Beijing Pengrun Property and Beijing Gome to set out terms of use by the Group of some properties in 2011 and 2012. The rental expenses incurred by the Group payable to Beijing Pengrun Property and Beijing Gome amounting RMB17,671,000 and RMB6,570,000 respectively for the six-month period ended 30 June 2011. The transactions constitute continuing connected transactions under the Listing Rules. Beijing Pengrun Property was authorized by Beijing Xinhengji to manage the leased properties and receive the rental from the Group since 2007.
- (iv) The provision of guarantees is at nil consideration.
- (v) The Group received operating lease rentals from GOME Home Appliances (Hong Kong) Limited, a company owned by Mr. Wong.
- (vi) In November 2007, the Group entered into a lease agreement with Centergate Technologies to lease certain commercial properties for the Group’s retail operations for a period from 1 December 2007 to 30 November 2020 with a prepaid rental of RMB85,952,000. The balance of the rental prepayments at 30 June 2011 amounted to RMB62,259,000 (31 December 2010: RMB65,565,000), among which RMB55,647,000 (31 December 2010: RMB58,953,000) was classified as non-current and RMB6,612,000 (31 December 2010: RMB6,612,000) (note 15(i)) was classified as current in the Interim Financial Information.

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 26. RELATED PARTY TRANSACTIONS (continued)

- (b) Compensation of key management of the Group:

|  | For the six-month period<br>ended 30 June |                                |
|--|---|--------------------------------|
|  | 2011<br>(Unaudited)<br>RMB'000            | 2010<br>(Unaudited)<br>RMB'000 |
| Fees   | 1,324                                     | 696                            |
| Other emoluments:                                  |   |                                |
| Salaries, allowances, bonuses, benefits and others | 25,009                                    | 4,469                          |
| Pension costs                                      | 93  | 98                             |
| Equity-settled share option expense                | (892)                                     | 26,558                         |
|  | <b>25,534</b>                             | <b>31,821</b>                  |

### 27. CONTINGENCIES

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

|   | 30 June<br>2011<br>(Unaudited)<br>RMB'000 | 31 December<br>2010<br>(Audited)<br>RMB'000 |
|---|---|---|
| Guarantees given to banks in connection<br>with bill facilities granted in favour of:<br>Dazhong Appliances | <b>318,660</b>                            | <b>351,919</b>                              |

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

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

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 27. CONTINGENCIES (continued)

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

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

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

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

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

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

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

#### **Court continues orders against Mr. Wong and his spouse**

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

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 27. CONTINGENCIES (continued)

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

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

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

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

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

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

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

#### **High Court varies order against Ms. Du Juan**

The High Court has varied the interim injunction order in relation to the proceedings commenced by the SFC involving the Allegations against Mr. Wong and his spouse. Following undertakings to the Court by Shinning Crown Holdings Inc. and Shine Group Limited, the SFC consented to the discharge of the interim injunction order made against Ms. Du Juan. The undertakings ensure that HK\$1,655,167,000 in shares of the Company as represented by the share certificates that have been deposited with the High Court by Shinning Crown Holdings Inc. and Shine Group Limited in compliance with the High Court's interim injunction order will also irrevocably and unconditionally be used and applied to meet any liability of Ms. Du Juan, if such liability is imposed by the High Court in these proceedings. The variation of the interim injunctions order has no effect on the freezing order against Mr. Wong.

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

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 28. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments are as follows:

|  | Carrying amounts                          |   | Fair values                               |   |
|--|---|---|---|---|
|  | 30 June<br>2011<br>(Unaudited)<br>RMB'000 | 31 December<br>2010<br>(Audited)<br>RMB'000 | 30 June<br>2011<br>(Unaudited)<br>RMB'000 | 31 December<br>2010<br>(Audited)<br>RMB'000 |
| <b>Financial assets</b>  |   |   |   |   |
| Other investments  | 163,148                                   | 127,710                                     | 163,148                                   | 127,710                                     |
| Designated loans   | 3,600,000                                 | 3,648,000                                   | 3,600,000                                 | 3,648,000                                   |
| Trade and bills receivables  | 148,353                                   | 206,102                                     | 148,353                                   | 206,102                                     |
| Financial assets included<br>in prepayments, deposits<br>and other receivables           | 1,377,545                                 | 1,417,110                                   | 1,377,545                                 | 1,417,110                                   |
| Due from related parties   | 117,259                                   | 251,290                                     | 117,259                                   | 251,290                                     |
| Financial asset at fair value<br>through profit or loss                                  | 200,000                                   | -   | 200,000                                   | -   |
| Derivative component of<br>convertible bonds   | 7,116                                     | 7,349                                       | 7,116                                     | 7,349                                       |
| Pledged deposits   | 6,235,256                                 | 6,268,130                                   | 6,235,256                                 | 6,268,130                                   |
| Cash and cash equivalents  | 8,398,193                                 | 6,232,450                                   | 8,398,193                                 | 6,232,450                                   |
|  | <b>20,246,870</b>                         | 18,158,141                                  | <b>20,246,870</b>                         | 18,158,141                                  |
| <b>Financial liabilities</b>   |   |   |   |   |
| Interest-bearing bank loan   | 100,000                                   | 100,000                                     | 100,000                                   | 100,000                                     |
| Trade and bills payables   | 18,473,934                                | 16,899,683                                  | 18,473,934                                | 16,899,683                                  |
| Financial liabilities included<br>in customers' deposits, other<br>payables and accruals | 873,584                                   | 728,131                                     | 873,584                                   | 728,131                                     |
| Due to related parties   | 11,101                                    | 97,826                                      | 11,101                                    | 97,826                                      |
| Liability components of<br>convertible bonds   | 2,024,432                                 | 1,944,045                                   | 2,561,257                                 | 2,449,543                                   |
|  | <b>21,483,051</b>                         | 19,769,685                                  | <b>22,019,876</b>                         | 20,275,183                                  |

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 28. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

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

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related parties, designated loans and an interest-bearing bank loan approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond.

The fair values of unlisted available-for-sale equity investments and financial asset at fair value through profit or loss have been estimated using a valuation technique based on assumptions that are supported by observable market prices. The fair value of derivative component of convertible bonds has been estimated using a valuation technique based on assumptions that are supported by unobservable market prices. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss or other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

## Notes to the Interim Financial Information (continued)

As at 30 June 2011

### 28. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

#### Assets measured at fair value:

As at 30 June 2011

|   | Level 1<br>(Unaudited)<br>RMB'000 | Level 2<br>(Unaudited)<br>RMB'000 | Level 3<br>(Unaudited)<br>RMB'000 | Total<br>(Unaudited)<br>RMB'000 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Other investments:                                      |                                   |                                   |                                   |                                 |
| Equity investments                                      | -                                 | 163,148                           | -                                 | 163,148                         |
| Financial asset at fair value through<br>profit or loss | -                                 | 200,000                           | -                                 | 200,000                         |
| Derivative component of convertible<br>bonds            | -                                 | -                                 | 7,116                             | 7,116                           |
|   | -                                 | 363,148                           | 7,116                             | 370,264                         |

As at 31 December 2010

|  | Level 1<br>(Audited)<br>RMB'000 | Level 2<br>(Audited)<br>RMB'000 | Level 3<br>(Audited)<br>RMB'000 | Total<br>(Audited)<br>RMB'000 |
|--|---------------------------------|---------------------------------|---------------------------------|-------------------------------|
| Other investments:                           |                                 |                                 |                                 |                               |
| Equity investments                           | -                               | 127,710                         | -                               | 127,710                       |
| Derivative component of convertible<br>bonds | -                               | -                               | 7,349                           | 7,349                         |
|  | -                               | 127,710                         | 7,349                           | 135,059                       |

During the period, there were no transfers of fair value measurements between Level 1 and Level 2, and no transfers into or out of Level 3.

### 29. EVENTS AFTER THE REPORTING PERIOD

#### Share option

Subsequent to 30 June 2011, 29,343,000 share options were exercised at the subscription price of HK\$1.9 per share, resulting in the issue of 29,343,000 shares of HK\$0.025 each.

### 30. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited Interim Financial Information was approved and authorised for issue by the board of directors of the Company on 29 August 2011.

## Additional Information

### DISCLOSURE OF INTERESTS

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

As at 30 June 2011, the interests and short positions of the directors of the Company (the "Director(s)") and chief executives of the Company (the "Chief Executive(s)") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

| Name of Director/<br>Chief Executive | Personal<br>interest   | Interest<br>of spouse | Corporate<br>interest | Trustee | Total      | Approximate %<br>shareholding |
|--------------------------------------|------------------------|-----------------------|-----------------------|---------|------------|-------------------------------|
| Ng Kin Wah                           | 10,000,000<br>(Note 1) | -                     | -                     | -       | 10,000,000 | 0.06                          |
| Zhu Jia                              | 1,168,920              | -                     | -                     | -       | 1,168,920  | 0.01                          |
| Wang Jun Zhou                        | 16,500,000<br>(Note 1) | -                     | -                     | -       | 16,500,000 | 0.10                          |

Notes:

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

Save as disclosed above, as at 30 June 2011, none of the Directors, Chief Executives or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## Additional Information

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

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

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

*Note:* As at 29 August 2011, a maximum number of Shares available for issue under the Share Option Scheme was 515,380,232 Shares (including Options for 241,401,200 ordinary shares that have been granted but not yet exercised), representing approximately 3.05% of the issued share capital of the Company as at the time of approval of this interim financial information by the Board on 29 August 2011.

The number of Shares in respect of which Options may be granted pursuant to the Share Option Scheme shall not exceed 10% of the Shares in issue on date of adoption of the Share Option Scheme. Unless otherwise approved by the shareholders of the Company in general meeting, the number of Shares in respect of which Options may be granted to each Participant in any 12-month period shall not exceed 1% (except for any grant to substantial shareholders as defined in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), or an independent non-executive Director or any of their respective associates as defined in the Listing Rules, must not in aggregate exceed 0.1%) of the issued share capital of the Company from time to time.

There is no requirement as to the minimum period during which the Option shall be held before it can be exercised and the Option granted shall be exercised during the period as may be determined by the Board provided that no Option may be exercised more than 10 years after it has been granted.

The exercise price of the Option shall not be less than the highest of (a) the closing price of the Shares as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant; (b) average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

Consideration of HK\$1.00 was paid on the grant of the Option by each grantee.

The Share Option Scheme shall be valid and effective for a period of 10 years after the date of its adoption (i.e. 15 April 2005).

## Additional Information

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

As at 30 June 2011, 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).

### (d) Directors' interests in competing business

During the period, no Director was interested in any business (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, whether directly or indirectly, with the businesses of the Group.

However, during the period, Mr. Wong Kwong Yu ("Mr. Wong"), Ms. Du Juan being the spouse of Mr. Wong and Ms. Huang Xiu Hong being a sister of Mr. Wong, who remained as directors of certain subsidiaries of the Company had beneficial interest or held directorship or otherwise had control in companies which operate an electrical appliances and consumer electronics products retail network under the brand name "GOME" in different cities in China (the "Non-listed GOME Group") separate from the Group.

Mr. Wong and the Company entered into the Non-competition Undertaking on 29 July 2004. Pursuant to the Non-competition Undertaking, Mr. Wong undertook to the Company that he would not and would procure that the Non-listed GOME Group would not, amongst other things, engage in retail sales of electrical appliances and/or consumer electronic products in places in China where the Company as at 3 June 2004 had established any retail outlet for the sale of electrical appliances and consumer electronics products under the "GOME Electrical Appliances" trademark, whereas the Company undertook to Mr. Wong not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronics products in any of the locations in China in which any member of the Non-listed GOME Group as at 3 June 2004 had established or was in the course of establishing any retail outlet for the sale of electrical appliances and consumer electronics products under the "GOME Electrical Appliances" trademark. The Non-competition Undertaking would be valid until and unless Mr. Wong ceases to be the controlling shareholder of the Company.

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

With effect from June 2011, Mr. Zou Xiao Chun was appointed to be a director and vice chairman of Sanlian Commercial Co., Limited (a company listed on the Shanghai Stock Exchange).

In April 2011, Mr. Sze Tsai Ping, Michael ceased to be a member of the Securities and Futures Appeals Tribunal.

With effect from April 2011, Mr. Chan Yuk Sang was appointed as independent non-executive director of Opes Asia Development Limited (a company listed on the Hong Kong Stock Exchange).

Mr. Lee Kong Wai, Conway was appointed as independent non-executive director of Tibet 5100 Water Resources Holdings Ltd. (a company listed on the Hong Kong Stock Exchange) and of CITIC Securities Company Limited (a company listed on the Shanghai Stock Exchange) with effect from March and August 2011 respectively.

## Additional Information

### SHARE OPTION SCHEME

As at 30 June 2011, Options to subscribe for an aggregate of 270,744,500 Shares granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

| Name of grantee                  | Date of grant | Exercise price per Share<br>HK\$ | Number of Options    |                           |                             |                                    | Price of Shares for Options exercised during the period<br>(Note 5) |                                |
|----------------------------------|---------------|----------------------------------|----------------------|---------------------------|-----------------------------|------------------------------------|---|--------------------------------|
|                                  |               |                                  | As at 1 January 2011 | Granted during the period | Exercised during the period | Cancelled/lapsed during the period |   | As at 30 June 2011<br>(Note 1) |
| Director<br>Ng Kin Wah           | 7 July 2009   | 1.90                             | 10,000,000           | -                         | -                           | -                                  | 10,000,000  | -                              |
| Chief Executive<br>Wang Jun Zhou | 7 July 2009   | 1.90                             | 20,000,000           | -                         | (3,500,000)                 | -                                  | 16,500,000  | 3.00                           |
| Other employees                  | 7 July 2009   | 1.90                             | 320,974,000          | -                         | (47,479,500)                | (29,250,000)<br>(Note 4)           | 244,244,500   | 2.95                           |
| Total                            |               |                                  | 350,974,000          | -                         | (50,979,500)                | (29,250,000)                       | 270,744,500   |                                |

#### Notes:

- Each Option has a 10-year exercise period and may be exercised after the expiry of twelve months from the date of the grant of Options. Each grantee may exercise up to 25%, 50%, 75% and 100% of the Options granted commencing from the first, second, third and fourth anniversaries, respectively, of the date of the grant of the Options.
- The fair value of Options granted on 7 July 2009 under the Share Option Scheme, determined by using the Binomial Model value model, was approximately RMB296.45 million. The significant inputs into the model were the exercise price of HK\$1.90, expected volatility and historical volatility of 63%, expected dividend yield rate of 1.2% and annual risk-free interest rate is 2.565%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.
- The vesting period of these Options is from the date of grant until the commencement of the exercise period mentioned above.
- 29,250,000 Options were cancelled during the six-month period ended 30 June 2011.
- The price of Shares disclosed for the Options exercised during the six-month period ended 30 June 2011 is the weighted average of the closing price, quoted on the Hong Kong Stock Exchange immediately before the date of exercise of Options.

## Additional Information

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or Chief Executive, as at 30 June 2011, other than the Directors or the Chief Executive as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

#### (a) Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

| Name of Shareholder                                | Nature        | Number of ordinary Shares held | Approximate % of shareholding |
|--|---------------|--------------------------------|-------------------------------|
| Mr. Wong Kwong Yu (Note 1)                         | Long position | 5,417,539,490                  | 32.15                         |
| Ms. Du Juan (Note 2)                               | Long position | 5,417,539,490                  | 32.15                         |
| Shinning Crown Holdings Inc. (Note 3)              | Long position | 4,550,100,000                  | 27.00                         |
| Bain Capital Asia Integral Investors, LP. (Note 4) | Long position | 1,665,546,935                  | 9.88                          |
| Bain Capital Investors, LLC (Note 5)               | Long position | 1,665,546,935                  | 9.88                          |

Notes:

- Of these 5,417,539,490 Shares, 4,550,100,000 Shares were held by Shinning Crown Holdings Inc. and 624,453,890 Shares were held by Shine Group Limited (both companies are 100% beneficially owned by Mr. Wong), and 237,321,600 Shares were held by Smart Captain Holdings Limited and 5,664,000 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong).
- Ms. Du Juan is the spouse of Mr. Wong. The aforesaid Shares that Mr. Wong and Ms. Du Juan are deemed to be interested refer to the same parcel of Shares.
- Shinning Crown Holdings Inc. is 100% beneficially owned by Mr. Wong.
- Bain Capital Asia Integral Investors, LP. was interested in these Shares through its interests in controlled corporations.
- Bain Capital Investors, LLC was interested in these Shares through its interests in controlled corporations. These interests are duplicated by the interests disclosed in (Note 4) above.

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

Save as disclosed above, so far as is known to any Director or Chief Executive, as at 30 June 2011, no other person (other than the Directors or Chief Executives of the Company), had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **Additional Information**

### **OTHER INFORMATION**

#### **INTERIM DIVIDEND**

The Board declared an interim dividend of HK\$2.7 cents (equivalent to RMB2.2 fen) per ordinary share (the “Interim Dividend”) for the six-month period ended 30 June 2011, amounting to approximately HK\$454,937,000 (equivalent to RMB378,335,000) to shareholders whose names appear on the register of members of the Company on Wednesday, 28 September 2011. The Interim Dividend will be payable on or about Friday, 21 October 2011.

#### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 28 September 2011 to Friday, 30 September 2011 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the Interim Dividend, all properly completed and duly stamped transfer forms accompanied by the relevant share certificates should be lodged with the Company’s registrar, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 27 September 2011. The record date for the determination of entitlement to the Interim Dividend will be on Wednesday, 28 September 2011.

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

Pursuant to the terms of the warrants issued on 1 March 2006 by the Company entitling the holders to subscribe up to an aggregate amount of US\$25,000,000 for new Shares (the “Warrants”), an aggregate of 108,790,252 Shares have been issued to the holder of the Warrants on 24 January 2011 by the Company at the exercise price of US\$0.2298 per Share. After the exercise of the Warrants noted above, the Company does not have any outstanding Warrants.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six-month period ended 30 June 2011.

## Additional Information

### CHANGES IN THE BOARD

As disclosed in the two announcements of the Company dated 9 March 2011 and 10 June 2011 respectively, changes in the Board since 31 December 2010 are as follows:

Mr. Chen Xiao resigned as Director and Chairman of the Board with effect from 10 March 2011;

Mr. Sun Yi Ding resigned as Director with effect from 10 March 2011;

Mr. Zhang Da Zhong was appointed as non-executive Director and Chairman of the Board with effect from 10 March 2011;

Mr. Lee Kong Wai, Conway was appointed as independent non-executive Director with effect from 10 March 2011;

Mr. Wang Jun Zhou retired as Director with effect from 10 June 2011;

Ms. Wei Qiu Li retired as Director with effect from 10 June 2011;

Ms. Huang Yan Hong retired as Director with effect from 10 June 2011; and

Mr. Ng Wai Hung was appointed as independent non-executive Director with effect from 10 June 2011.

## Additional Information

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Listing Rules for the six-month period ended 30 June 2011.

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

Under code provision B.1.1 of the CG Code, a majority of the members of the Remuneration Committee should be independent non-executive directors. As disclosed in the announcement of the Company dated 10 November 2010, pursuant to the provision of the memorandum of understanding dated 10 November 2010 between the Company and Shinning Crown Holdings Inc. (the “MOU”), Ms. Huang Yan Hong was appointed as a non-executive Director and a member of the Remuneration Committee of the Board with effect from 17 December 2010. Since her appointment on 17 December 2010, the Remuneration Committee consists of three independent non-executive Directors, one executive Director and two non-executive Directors and hence, such composition of the Remuneration Committee constituted a deviation from code provision B.1.1 of the CG Code. After the enlargement of the Board and the changes in the Board composition as a result of the additional appointment of an executive director and a non-executive director pursuant to the MOU on 17 December 2010, the Board has reviewed the ratio of independent non-executive directors in the composition of the Board and its committees, and subsequently appointed Mr. Lee Kong Wai, Conway as an independent non-executive Director of the Company and a member of the Remuneration Committee with effect from 10 March 2011 in compliance with the requirement under code provision B.1.1 of the CG Code. Ms. Huang Yan Hong subsequently retired as a Director and a member of the Remuneration Committee on 10 June 2011.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## Additional Information

### DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

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

As at 30 June 2011, 天津國美商業管理諮詢有限公司 (Tianjin Gome Commercial Consultancy Company Limited) ("Tianjin Consultancy") had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2010: RMB3.6 billion) (the "Advance") to 北京戰聖投資有限公司 (Beijing Zhansheng Investment Co., Ltd.) ("Beijing Zhansheng"), a third party independent of each of the Company and its connected persons (within the meaning of the Listing Rules), through 興業銀行股份有限公司北京分行 (Beijing branch of Industrial Bank Co., Ltd) (the "Lending Bank") pursuant to the loan agreement entered into between Tianjin Consultancy, Beijing Zhansheng and the Lending Bank on 14 December 2007. The Advance is to be used by Beijing Zhansheng for the sole purpose of acquisition of the entire registered capital of 北京市大中家用電器連鎖銷售有限公司 (Beijing Dazhong Home Appliances Retail Co., Ltd.). The Advance is a secured loan. The term of the Advance is initially from 14 December 2007 to 13 December 2008 and the interest rate was 6.561% per annum. It has been renewed and extended to 12 December 2009 in year 2008, and the interest rate was 5.103% per annum. It has been further renewed for a period of two years from 15 December 2009 to 14 December 2011 in year 2009 and the interest rate is 4.86% per annum. As at 30 June 2011, the Advance was RMB3.6 billion and the Advance represented approximately 9.25% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

### REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee of the Company has reviewed this interim report of the Company, together with the internal control and financial reporting matters of the Group, which includes the unaudited interim consolidated financial statements of the Group for the six-month period ended 30 June 2011 as reviewed by Ernst & Young, the external auditors.

## Corporate Information

### Directors

#### Executive Directors

NG Kin Wah  
ZOU Xiao Chun

#### Non-executive Directors

ZHANG Da Zhong (*Chairman*)  
ZHU Jia  
Ian Andrew REYNOLDS  
WANG Li Hong

#### Independent Non-executive Directors

SZE Tsai Ping, Michael  
CHAN Yuk Sang  
Thomas Joseph MANNING  
LEE Kong Wai, Conway  
NG Wai Hung

### Company Secretary

SZETO King Pui, Albert

### Authorised Representatives

NG Kin Wah  
ZOU Xiao Chun

### Principal Bankers

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

### Auditors

Ernst & Young  
Certified Public Accountants

### Registered Office

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

### Head Office

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

### Principal Share Registrars

Butterfield Fulcrum Group (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM08  
Bermuda

### Share Registrars in Hong Kong

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