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GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國美電器控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHTS

	1H 2009	1H 2008
	<i>RMBm</i>	<i>RMBm</i>
Revenue	20,463	24,874
Gross profit	2,008	2,375
Consolidated gross profit margin*	16.48%	16.33%
Profit from operating activities	671	1,272
Profit attributable to equity holders of the parent	580	1,150
Earnings per share		
– Basic	RMB4.5 fen	RMB8.9 fen
– Diluted	RMB4.5 fen	RMB8.9 fen

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

The board of directors (the “Board”) of GOME Electrical Appliances Holding Limited (the “Company”) announces the unaudited interim financial information of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 together with the comparative figures for the corresponding period in 2008 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six-month period ended 30 June 2009

	Notes	For the six-month period ended 30 June	
		2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Revenue	3(a)	20,463,322	24,873,694
Cost of sales		(18,455,552)	(22,498,846)
Gross profit		2,007,770	2,374,848
Other income and gain	3(b)	1,364,053	1,686,836
Selling and distribution costs		(2,164,203)	(2,163,691)
Administrative expenses		(355,292)	(375,917)
Other expenses		(181,047)	(250,384)
Profit from operating activities		671,281	1,271,692
Finance costs	6	(108,350)	(108,851)
Finance income	6	164,068	268,952
Gain/(loss) on the derivative component of convertible bonds	11	23,210	(11,400)
Profit before tax	5	750,209	1,420,393
Tax	7	(165,273)	(233,364)
Profit for the period		584,936	1,187,029
Attributable to:			
Equity holders of the parent		580,308	1,149,755
Minority interests		4,628	37,274
		584,936	1,187,029
Earnings per share attributable to ordinary equity holders of the parent	8		
– Basic		RMB4.5 fen	RMB8.9 fen
– Diluted		RMB4.5 fen	RMB8.9 fen

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2009

	For the six-month period ended 30 June	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Profit for the period	584,936	1,187,029
Exchange differences on translation of foreign operations	(2,917)	(112,313)
Net gain/(loss) on other investments	<u>51,030</u>	<u>(298,172)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>48,113</u>	<u>(410,485)</u>
Total comprehensive income for the period, net of tax	<u><u>633,049</u></u>	<u><u>776,544</u></u>
Attributable to:		
Equity holders of the parent	628,421	739,270
Minority interests	<u>4,628</u>	<u>37,274</u>
	<u><u>633,049</u></u>	<u><u>776,544</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

		30 June 2009 (Unaudited) <i>RMB'000</i>	31 December 2008 (Audited) <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		3,871,815	3,719,829
Investment properties		389,470	389,473
Goodwill		3,361,012	3,363,012
Other intangible assets		129,720	134,241
Other investments		159,840	108,810
Prepayments for acquisition of properties		128,439	270,160
Lease prepayments		366,597	355,089
Deferred tax assets		15,564	18,356
Other assets		<u>653,423</u>	<u>653,423</u>
Total non-current assets		<u>9,075,880</u>	<u>9,012,393</u>
 CURRENT ASSETS			
Hong Kong listed investments, at fair value		642	399
Investment deposits		–	30,000
Designated loan		3,600,000	3,600,000
Inventories		4,102,652	5,473,497
Trade and bills receivables	9	24,644	45,092
Prepayments, deposits and other receivables		1,350,252	1,384,355
Due from related parties		108,395	57,843
Pledged deposits		7,400,270	4,840,456
Cash and cash equivalents		<u>2,716,254</u>	<u>3,051,069</u>
Total current assets		<u>19,303,109</u>	<u>18,482,711</u>
 CURRENT LIABILITIES			
Interest-bearing bank loans		310,000	170,000
Trade and bills payables	10	13,045,283	12,917,958
Customers' deposits, other payables and accruals		1,477,723	1,530,141
Tax payable		486,917	529,148
Convertible bonds	11	<u>3,647,713</u>	<u>–</u>
Total current liabilities		<u>18,967,636</u>	<u>15,147,247</u>

		30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
NET CURRENT ASSETS		<u>335,473</u>	<u>3,335,464</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,411,353</u>	<u>12,347,857</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		78,269	78,269
Convertible bonds	<i>11</i>	<u>–</u>	<u>3,569,553</u>
Total non-current liabilities		<u>78,269</u>	<u>3,647,822</u>
Net assets		<u>9,333,084</u>	<u>8,700,035</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		331,791	331,791
Reserves		<u>8,856,464</u>	<u>8,228,043</u>
		9,188,255	8,559,834
Minority interests		<u>144,829</u>	<u>140,201</u>
Total equity		<u>9,333,084</u>	<u>8,700,035</u>

NOTES

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 “**SEHK**”). 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**”).

As set out in the Company’s announcements dated 24 November 2008, 28 November 2008, 10 December 2008, 24 December 2008, 18 January 2009 and 22 June 2009, the Company was verbally informed by the Beijing Municipal Public Security Bureau (the “**Bureau**”) on 27 November 2008 that Mr. Wong Kwong Yu (“**Mr. Wong**”), the former chairman and the former executive director and a substantial shareholder of the Company, was being investigated by the Bureau in connection with certain suspected economic crime (the “**Investigation**”). The Company confirms that it has not received any legal documents in connection with the Investigation from any regulatory, governmental or judicial authority in the PRC. To the best of the knowledge, information and belief of the Company and based on the information available to the Company as at the date of this interim report, the Investigation is not related to the Group. Trading in the shares of the Company on the SEHK had been suspended with effect from 24 November 2008, and was resumed since 23 June 2009.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The unaudited interim financial information for the six-month period ended 30 June 2009 (the “**Interim Financial Information**”) has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2008.

Significant accounting policies

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2008, except for the adoption of the new International Financial Reporting Standards (“**IFRSs**”) and International Financial Reporting Interpretations Committee (“**IFRIC**”) interpretations as of 1 January 2009, noted below:

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. The amendments also clarify the requirements for liquidity risk disclosures. The adoption of this standard did not have any material impact on the Interim Financial Information.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group has adopted IFRS 8 from 1 January 2009 and the segment information is disclosed in note 4 to the Interim Financial Information.

IAS 1 (Revised) Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 (Revised) Borrowing Costs

The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the standard, this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed. The adoption of this standard did not have any material impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any material impact on the financial position or performance of the Group.

IFRIC 13 Customer Loyalty Programmes

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this interpretation did not have any material impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this interpretation did not have any material impact on the financial position or performance of the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such, it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation did not have any financial impact on the financial position or performance of the Group.

Improvements to IFRSs

In May 2008, the Board issued its first 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.

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23 *Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of “borrowing costs” into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
IFRS 7	<i>Financial Instruments: Disclosures</i>
IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10	<i>Events after the Reporting Period</i>
IAS 16	<i>Property, Plant and Equipment</i>
IAS 18	<i>Revenue</i>
IAS 19	<i>Employee Benefits</i>
IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 27	<i>Consolidated and Separate Financial Statements</i>
IAS 28	<i>Investments in Associates</i>
IAS 31	<i>Interests in Joint ventures</i>
IAS 34	<i>Interim Financial Reporting</i>
IAS 36	<i>Impairment of Assets</i>
IAS 38	<i>Intangible Assets</i>
IAS 39	<i>Financial Instruments: Recognition and Measurement</i>

3. REVENUE AND OTHER INCOME AND GAIN

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

	For the six-month period ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB’000	RMB’000
Sale of electrical appliances and consumer electronic products	<u>20,463,322</u>	<u>24,873,694</u>

(b) Other income and gain comprises the following:

	<i>Notes</i>	For the six-month period ended 30 June	
		2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Income from suppliers		1,076,955	1,228,972
Management fees:			
– from the Non-listed GOME Group	<i>(i)</i>	106,333	135,402
– from Dazhong Appliances	<i>(ii)</i>	–	58,146
Management fees for air-conditioner installation		40,976	53,060
Rental income		77,506	91,987
Government grants	<i>(iii)</i>	7,660	16,830
Other service fee income		30,195	40,560
Others		24,428	61,879
		<u>1,364,053</u>	<u>1,686,836</u>

Notes:

- (i) The Non-listed GOME Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., Gome Electrical Appliance Retail Co., Ltd. and other companies which are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of “GOME Electrical Appliances” in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Non-listed GOME Group are owned by Mr. Wong, a substantial shareholder of the Company. Beijing Xinhengji Property Co., Ltd. (“**Beijing Xinhengji**”) is owned by a close member of the family of Mr. Wong.
- (ii) The Group entered into a management agreement (the “**Management Agreement**”) with Beijing Zhansheng Investment Co., Ltd. (“**Beijing Zhansheng**”) on 14 December 2007. 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. Pursuant to the Management Agreement, no management fees will be payable to the Group when the net profit of Dazhong Appliances is less than the interest expenses for the designated loan.
- (iii) Various local government grants have been received to reward the Group’s contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

4. SEGMENT INFORMATION

The Group has one reportable operating segment which is the operations and management of networks of electrical appliances and consumer electronic retail stores in the PRC.

The corporate office in Hong Kong does not earn revenues and is not classified as an operating segment.

Operating segments

The following table presents revenue and profit information for the six-month periods ended 30 June 2009 and 2008, respectively.

Six-month period ended 30 June 2009 (unaudited)

	Operations and management of networks of electrical appliances and consumer electronic retail stores	Adjustments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>20,463,322</u>	<u>–</u>	<u>20,463,322</u>
Other income and gain	<u>1,360,890</u>	<u>3,163</u>	<u>1,364,053</u>
Segment profit before tax	<u>837,547</u>	<u>*(87,338)</u>	<u>750,209</u>

* The profit from the operations and management of networks of electrical appliances and consumer electronic retail stores segment does not include interest expenses on convertible bonds amounting to RMB101,370,000, the fair value gain on the derivative component of convertible bonds amounting to RMB23,210,000 and financial income and other expenses incurred for the corporate office in Hong Kong amounting to RMB6,622,000 and RMB15,800,000, respectively.

Six-month period ended 30 June 2008 (unaudited)

	Operations and management of networks of electrical appliances and consumer electronic retail stores	Adjustments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>24,873,694</u>	<u>–</u>	<u>24,873,694</u>
Other income and gain	<u>1,686,494</u>	<u>342</u>	<u>1,686,836</u>
Segment profit before tax	<u>1,553,619</u>	<u>*(133,226)</u>	<u>1,420,393</u>

* The profit from the operations and management of networks of electrical appliances and consumer electronic retail stores segment does not include interest expenses on convertible bonds amounting to RMB99,190,000, the fair value loss on the derivative component of convertible bonds amounting to RMB11,400,000 and financial income and other expenses incurred for the corporate office in Hong Kong amounting to RMB74,634,000 and RMB97,270,000, respectively.

The following table presents segment assets as at 30 June 2009 and 31 December 2008:

	Operations and management of networks of electrical appliances and consumer electronic retail stores	Adjustments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets			
At 30 June 2009	<u>27,158,574</u>	<u>*1,220,415</u>	<u>28,378,989</u>
At 31 December 2008	<u>26,266,335</u>	<u>#1,228,769</u>	<u>27,495,104</u>

* As at 30 June 2009, the segment assets do not include cash and cash equivalents and pledged deposits in Hong Kong amounting to RMB1,196,451,000 as these assets are managed on a group basis.

As at 31 December 2008, the segment assets do not include cash and cash equivalents and pledged deposits in Hong Kong amounting to RMB1,208,526,000 as these assets are managed on a group basis.

5. PROFIT BEFORE TAX

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

	<i>Notes</i>	For the six-month period ended 30 June	
		2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Cost of inventories sold		18,455,552	22,498,846
Depreciation		166,871	154,155
Amortisation of intangible assets		4,521	5,106
Loss/(gain) on disposal of items of property, plant and equipment		2,934	(671)
Minimum lease payments under operating leases in respect of land and buildings		1,086,403	996,891
Gross rental income	<i>3(b)</i>	(77,506)	(91,987)
Management fees from Dazhong Appliances	<i>3(b)</i>	–	(58,146)
Interest income from Beijing Zhansheng	<i>6</i>	(91,099)	(95,449)
(Gain)/loss on the derivative component of convertible bonds:	<i>11</i>	(23,210)	11,400
Fair value (gain)/loss on Hong Kong listed investments		(243)	219
Net exchange (gain)/loss		(4,128)	73,024
Impairment of goodwill		2,000	–
Impairment of trade receivables and other receivables		21,724	2,379
Auditors' remuneration		4,000	3,500
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		534,435	550,324
Pension scheme contributions		128,888	102,019
Social welfare and other costs		3,025	10,844
		<u>666,348</u>	<u>663,187</u>

6. FINANCE (COSTS)/INCOME

	<i>Notes</i>	For the six-month period ended 30 June	
		2009	2008
		(Unaudited) RMB'000	(Unaudited) RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		(6,980)	(9,661)
Interest expenses on convertible bonds	<i>11</i>	<u>(101,370)</u>	<u>(99,190)</u>
		<u>(108,350)</u>	<u>(108,851)</u>
Finance income:			
Bank interest income		72,969	173,503
Other interest income	<i>(i)</i>	<u>91,099</u>	<u>95,449</u>
		<u>164,068</u>	<u>268,952</u>

Note:

- (i) Other interest income represented interest income from the RMB3,600 million designated loan to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The relevant interest rate is 5.103% (2008: 6.561%) per annum, which is determined by reference to the interest rate published by the People's Bank of China.

7. TAX

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (six-month period ended 30 June 2008: 25%) on their respective taxable income. During the current period, 22 entities (six-month period ended 30 June 2008: 19 entities) of the Group were entitled to preferential corporate income tax rates or corporate income tax exemptions.

No provision for the Hong Kong profits tax has been made for the six-month period ended 30 June 2008 and 2009 as the Group had no assessable profits arising in Hong Kong for each of the periods.

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax – PRC	162,481	224,906
Deferred income tax	2,792	8,458
	<u>165,273</u>	<u>233,364</u>

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

The basic earnings per share amount is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

The diluted earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period as used in the basic earning per share calculation plus the weighted average number of ordinary shares that are assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	For the six-month period ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	<u>580,308</u>	<u>1,149,755</u>

		Number of shares for the six-month period ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
	<i>Note</i>	'000	'000
Weighted average number of ordinary shares for the basic earnings per share calculation		12,758,756	12,851,668
Effect of dilution:			
Warrants	(i)	<u> –</u>	<u> 48,946</u>
Weighted average number of ordinary shares adjusted for the effect of dilution		<u>12,758,756</u>	<u>12,900,614</u>

Notes:

- (i) During the six-month period ended 30 June 2009, the average quoted market price of the Company's shares was less than the exercise price of the warrants. Therefore, the warrants had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share.
- (ii) The convertible bonds are anti-dilutive for the six-month periods ended 30 June 2008 and 2009 and are ignored in the calculation of diluted earnings per share for each of the periods.

9. 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.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, and net of provision for impairment of trade receivables, is as follows:

	30 June	31 December
	2009	2008
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Outstanding balances, aged:		
Within 3 months	24,145	41,787
3 to 6 months	9	1,615
6 months to 1 year	–	1,043
Over 1 year	<u>490</u>	<u>647</u>
	<u>24,644</u>	<u>45,092</u>

The balance of trade and bills receivables as at 31 December 2008 includes an amount of receivables from Dazhong Appliances of approximately RMB10,235,000 which was fully settled during the current period.

10. TRADE AND BILLS PAYABLES

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Trade payables	3,611,803	4,431,020
Bills payable	9,433,480	8,486,938
	<u>13,045,283</u>	<u>12,917,958</u>

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

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Outstanding balances, aged:		
Within 3 months	9,296,734	8,933,715
3 to 6 months	3,436,600	3,553,829
Over 6 months	311,949	430,414
	<u>13,045,283</u>	<u>12,917,958</u>

The Group's bills payable and PRC bank loans are secured by:

- (i) the pledge of certain of the Group's buildings amounting to RMB1,388,220,000 (31 December 2008: RMB753,846,000);
- (ii) the pledge of certain of the Group's investment properties with an aggregate fair value of RMB356,682,000 (31 December 2008: RMB300,216,000);
- (iii) the pledge of certain of the Group's inventories amounting to RMB500,000,000 (31 December 2008: RMB700,000,000);
- (iv) the pledge of the Group's time deposits amounting to RMB6,512,107,000 (31 December 2008: RMB4,639,192,000);
- (v) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits amounting to RMB888,163,000 (31 December 2008: RMB201,264,000); and
- (vi) the guarantees provided by the Non-listed GOME Group, Mr. Wong and Mr. Chen Xiao as at 30 June 2009 amounting to RMB1,380,000,000 (31 December 2008: RMB530,000,000).

11. CONVERTIBLE BONDS

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Liability components	3,673,203	3,571,833
Derivative components	(25,490)	(2,280)
	3,647,713	3,569,553
Classified as current liabilities	(3,647,713)	—
Non-current liabilities	—	3,569,553

On 11 May 2007, the Company issued RMB denominated United States dollar (“USD”) settled zero coupon convertible bonds due in 2014 (the “**2014 Convertible Bonds**”) in an aggregate principal amount of RMB4,600 million.

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

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

The 2014 Convertible Bonds will 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.

Pursuant to the Company’s announcements dated 5 July 2009 and 3 August 2009, the conversion price of the 2014 Convertible Bonds has been adjusted from HK\$4.96 per share to HK\$4.46 per share in accordance with the terms and conditions of the 2014 Convertible Bonds as a result of the open offer and issuance of the 2016 convertible bonds by the Company.

The Company has reclassified the convertible bonds from non-current liabilities to current liabilities during the current period as the 2014 Convertible bonds are redeemable at the option of the bondholders on 18 May 2010 in accordance with the terms and conditions of the 2014 Convertible Bonds.

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

	Liability component of convertible bonds <i>RMB'000</i>	Derivative component of convertible bonds <i>RMB'000</i>	Equity component of convertible bonds <i>RMB'000</i>	Total <i>RMB'000</i>
Principal amount of convertible bonds issued	3,305,362	(143,600)	1,438,238	4,600,000
Transaction costs	(49,392)	–	(22,468)	(71,860)
Interest expenses	315,863	–	–	315,863
Fair value adjustment	<u>–</u>	<u>141,320</u>	<u>–</u>	<u>141,320</u>
At 31 December 2008 (audited)	3,571,833	(2,280)	1,415,770	4,985,323
Interest expenses	101,370	–	–	101,370
Fair value adjustment	<u>–</u>	<u>(23,210)</u>	<u>–</u>	<u>(23,210)</u>
At 30 June 2009 (unaudited)	<u><u>3,673,203</u></u>	<u><u>(25,490)</u></u>	<u><u>1,415,770</u></u>	<u><u>5,063,483</u></u>

The fair values of the derivative component are determined based on the valuations performed by Vigers Appraisal & Consulting Limited, an independent firm of professionally qualified valuers, using the applicable option pricing model.

12. DIVIDENDS

	For the six-month period ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Declared and paid during the period		
Equity dividends on ordinary shares:		
Final dividend per share for 2008: Nil (2007: HK10.6 cents (equivalent to RMB9.9 fen))	<u><u>–</u></u>	<u><u>316,604</u></u>
Proposed (not recognised as a liability as at 30 June)		
Interim dividend per share for 2009: Nil (2008: HK3.0 cents (equivalent to RMB2.7 fen))	<u><u>–</u></u>	<u><u>344,486</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group has, over the past six months, overcome the most serious crisis and challenge it has faced since incorporation. The Group has also gradually come back to the right track based on sound business policy for transforming the Group from focus on scale expansion to efficiency management. The operational focus has changed from revenue growth driven by increase of new stores to earnings enhancement driven by individual store profitability. With this approach, the Group will improve the sales and profitability of its stores and optimize its network structure. Against the backdrop of the global financial crisis, it has established a win-win partnership with suppliers and banks, and attracted an investment in the Group by Bain Capital Glory Limited (the Bain Capital), a global private equity investment company, which has enhanced its capital strength and will help to improve corporate governance standards, enabling the Group to maintain a positive development momentum in both the household appliance retail sector and the capital market.

For the first half of 2009, the Group recorded sales revenue of approximately RMB20,463 million, down 17.73% from the corresponding period in 2008. During the reporting period, profit before tax amounted to approximately RMB750 million. Net profit attributable to the equity holders of the Company was approximately RMB580 million.

During the period, the Group entered into an investment agreement with Bain Capital, pursuant to which Bain Capital agreed to conditionally subscribe for convertible bonds due 2016 issued by the Company for a total consideration of approximately US\$233 million (equivalent to approximately RMB1,590 million). This investment by Bain Capital represents a vote of confidence in the Group by the capital market, signifying that the development outlook of the household appliance chain store industry is viewed as very promising by investors.

The Company also launched an open offer of approximately 2,296 million shares at a subscription price of HK\$0.672 per share on the basis of 18 open offer shares for every 100 shares held. Upon completion of the open offer, the Company's capital has increased by approximately HK\$1,543 million (equivalent to approximately RMB1,360 million).

As at 3 August 2009, these two financing projects had been completed, bringing the Group's additional capital by approximately RMB2,950 million. The three non-executive directors nominated by Bain Capital have officially appointed to the Board of the Company. Their extensive retail sector and capital market expertise will further strengthen the Board, improve corporate governance and allow the Group to maintain strong momentum in the business.

FINANCIAL REVIEW

Revenue

During the reporting period, due to the impact of the macro economic slow down, the Group's revenue was RMB20,463 million, representing a decrease of 17.73% from RMB24,874 million in the same period in 2008.

During the reporting period, the Group had 595 comparable stores, which accounted 76.38% of the total number of stores at the end of the reporting period. The revenue of aggregate sales of comparable stores recorded a 10.08% decrease compared to the same period of last year. The proportion of decrease was smaller than that of the aggregate revenue.

Cost of Sales and Gross Profit

Costs of sales of the Group was approximately RMB18,456 million in the reporting period, representing 90.19% of sales revenue, declining slightly from 90.45% of last year. This was mainly due to the Group's promotion of the differentiation strategy in product, enhancement the management of its product mix and standardisation of terms with suppliers which generated an increase in gross profit margin for the Group. During the reporting period, the total gross profit recorded was approximately RMB2,008 million as compared with approximately RMB2,375 million in the same period of the previous year. The gross profit margin went up to 9.81% during the reporting period from 9.55% in the same period in 2008.

Other Income

During the reporting period, the Group recorded other income of approximately RMB1,364 million, representing a slight decrease from RMB1,687 million in the same period in 2008.

Other income of the Group mainly came from suppliers, which principally comprised fees paid by suppliers from promotional activities held by the Group, management service fees paid by suppliers to the Group for advertising their products, and display space leasing fees paid by suppliers for selling their products in the Group's stores.

Consolidated Gross Profit Margin

During the reporting period, the Group's consolidated gross profit margin reached 16.48%, representing an increase of 0.15 percentage points as compared with 16.33% in the same period in 2008.

The increase in the Group's consolidated gross profit margin reflected continuous enhancement of operational efficiency.

Selling and Distribution Costs

During the reporting period, the Group's total selling and distribution costs amounted to approximately RMB2,164 million, the same as RMB2,164 million in the same period in 2008.

Administrative Expenses

Thanks to effective cost controls during the reporting period, administrative expenses decreased approximately 5.59% to RMB355 million from approximately RMB376 million in the same period in 2008.

Other Expenses

Other expenses of the Group mainly comprised business tax, bank charges, provision for bad debts, provision for goodwill impairment, exchange gains or losses, and other miscellaneous expenses. Other expenses were approximately RMB181 million for the reporting period, representing a decrease of 27.60% from RMB250 million in the same period in 2008, mainly due to the reduction in bank charges and exchange losses in the first half of 2009.

Finance Income, Net

During the reporting period, the Group's net finance income was approximately RMB56 million, down from RMB160 million in the same period in 2008.

Profit Before Tax

During the reporting period, the Group's profit before tax was approximately RMB750 million, versus RMB1,420 million in the same period in 2008.

Income Tax

During the reporting period, the Group's income tax was approximately RMB165 million, representing approximately 29.18% decrease as compared with RMB233 million in the same period in 2008. The management considers the tax rate applied to the Group for the reporting period to be reasonable.

Profit Attributable to Equity Holders and Earnings Per Share

Profit attributable to equity holders of the Company for the period and the same period of the previous year were approximately RMB580 million and RMB1,150 million respectively. Therefore, the Group's basic earnings per share for the reporting period was RMB4.5 fen compared with RMB8.9 fen for the same period in 2008.

Cash and Cash Equivalents

At the end of the reporting period, the Group's cash and cash equivalents were approximately RMB2,716 million, which was basically the same as RMB3,051 million at the end of 2008.

Inventory

At the end of the reporting period, the Group's inventory amounted to approximately RMB4,103 million, representing a decrease of 25.03% from RMB5,473 million at the end of 2008. The inventory turnover period was approximately 47 days, which remained largely stable compared with 44 days for the same period in 2008.

Prepayment, Deposits and Other Receivables

At the end of the reporting period, prepayment, deposits and other receivables of the Group amounted to approximately RMB1,350 million, which was basically unchanged as compared with RMB1,384 million at the end of 2008.

Trade and Bills Payables

At the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB13,045 million, which was broadly unchanged as compared with approximately RMB12,918 million at the end of 2008. Trade and bills payables turnover days were 127 days, which represents a slight increase compared with 113 days for the same period in 2008.

Capital Expenditure

During the reporting period, capital expenditure of the Group amounted to approximately RMB212 million, representing a substantial decrease from RMB1,362 million in the same period in 2008.

Cash Flow

During this reporting period, net cash outflow from operating activities of the Group amounted to approximately RMB297 million as compared to net cash inflow of about RMB2,263 million in the same period in 2008.

Higher cash outflow in 2009 was due to increase in the pledged deposit amounted to approximately RMB2,560 million during the period.

Net cash outflow from investing activities amounted to approximately RMB168 million as compared to RMB2,846 million in the same period in 2008.

Cash inflow from financing activities amounted to approximately RMB133 million, representing a substantial decrease from the cash outflow from financing activities of RMB2,177 million in the same period in 2008. This was mainly due to the share buyback resulting in a higher cash outflow in 2008.

Pledging of Assets

As at 30 June 2009, the Group's pledged time deposits amounted to RMB7,400 million, pledged properties amounted to RMB1,745 million and pledged inventories amounted to RMB500 million.

OUTLOOK AND PROSPECTS

Going forward, the Group will continue to meet challenges in order to adapt to the ever-evolving market. With the operating policy moving from rapid expansion to profit-orientation, the Group will continue to improve its consolidated gross profit margin by managing its products and improving the relationship with suppliers and to improve its operating efficiency at the same time by optimizing its networks of stores and adjusting its cost structure.

In respect of network optimization, the Group will continue to close the stores of low efficiency whilst opening new stores in first-and second-tier cities. By referring to the revamped stores during the reporting period, the Group will promote the operating model of the novel stores to the whole country. In the meantime, the Group will be further promoting the leasing, rent cuts and surrender of leases so as to reduce its rental expenses.

In enhancing the management of its product mix, the Group will continue to promote product differentiation and to enhance the selling of exclusive products, OEM, ODM and products of its own brands. Meanwhile, the Group will also enhance the variety of its products, increase the share of small electrical appliances, household electrical appliances, 3C products and accessories of 3C products so as to improve its overall gross profit margin. On the other hand, the Group will also focus on the improvement and alignment of the models of its contracts with an aim to achieve transparency.

The Group will actively take part in the national policy of government subsidies. The Group's sales will be increased under the three major polices – Go Rural, exchange old for new subsidy programme and energy-saving subsidy programme.

In addition, the Group will further explore new businesses, with an aim to improve its overall profitability by developing electronic business.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Except for the guarantees of about RMB140 million given to banks in connection with bill facilities granted in favour of Dazhong Appliances, which was not provided in the statements, there were no material contingent liabilities during the reporting period. Moreover, the Group had capital commitment of approximately RMB119 million at the end of the reporting period.

FOREIGN CURRENCIES AND TREASURY POLICY

All the Group's income and the majority of its expenses were denominated in Renminbi. However, as the Renminbi has been appreciating against the US Dollar, the Group's short-term US Dollar deposits have recorded an exchange loss in the period. The Group has not hedged its foreign exchange exposure but may consider doing so in the future. 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 purchase are imported products, which are sourced indirectly from distributors in the PRC and the transactions are denominated in Renminbi.

HUMAN RESOURCES

As at 30 June 2009, the Group had 44,971 employees, down 7.65% from 48,697 at the end of 2008.

INTERIM DIVIDENDS

The board of Directors does not recommend the payment of an interim dividend.

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

During the six months ended 30 June 2009, the Company has not redeemed and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the six months ended 30 June 2009.

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. Notice of one of the two regular meetings of the Board during the period under review were sent to all Directors in compliance with the said requirement. Where the Board considers necessary and desirable to hold a regular Board meeting with notice less than 14 days, the Board will first consult the Directors whether a shorter notice

period is acceptable to them and if so, a regular Board meeting will be fixed accordingly. During the period under review, the notice period for regular Board meetings given to the Directors was about 14 days. Agenda accompanying Board papers relating to a regular Board meeting were sent to all Directors at least 3 days respectively prior to such meeting in compliance with the CG Code.

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separate and should not be performed by the same individual. As disclosed in the announcement of the Company dated 28 November 2008, as a result of Mr. Wong Kwong Yu's inability to perform his duties as a Director and the Chairman of the Company, the Board with effect from 27 November 2008 appointed Mr. Chen Xiao who is an executive Director and the President of the Company to be the Acting Chairman of the Company. As Mr. Chen Xiao, being the President of the Company, has been performing the role and function of the chief executive officer of the Company, his appointment as the Acting Chairman constituted a deviation from code provision A.2.1 of the CG Code. Given that Mr. Chen Xiao has been the substantial shareholder (as defined in the Listing Rules) and the President of the Group since completion of the Company's acquisition of China Paradise Electronics Retail Limited (which he founded) and has over 20 years of experience in the electrical and electronic retail sector in China, the Board believes that it is in the best interest of the Group and its shareholders as a whole to also appoint Mr. Chen Xiao as the Acting Chairman in the interim period to provide stability to the Group and to oversee the operations of the Group in the circumstances.

The Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including separation of the roles of the Chairman and the President of the Company, are necessary.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon 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.

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee of the Company has reviewed this interim report of the Company, together with the internal control and financial reporting matters of the Group, which includes the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2009 as has been reviewed by Ernst & Young, the external auditors.

PUBLICATION INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.gome.com.hk). The 2009 Interim Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

APPRECIATION

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

By Order of the Board
GOME Electrical Appliances Holding Limited
Chen Xiao
Chairman and President

Hong Kong, 21 August 2009

As at the date of this announcement, the Board comprises Mr. Chen Xiao, Mr. Ng Kin Wah, Mr. Wang Jun Zhou, Ms. Wei Qiu Li and Mr. Sun Yi Ding as executive directors; Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive directors; and Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang and Mr. Thomas Joseph Manning as independent non-executive directors.

* *For identification purpose only*