



GOME RETAIL HOLDINGS LIMITED

國美零售控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

UNAUDITED INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	First half of 2019 RMBm	First half of 2018 RMBm
Revenue	34,333	34,706
Consolidated gross profit [#]	6,151	6,009
Consolidated gross profit margin	17.92%	17.32%
Profit/(loss) before finance (costs)/income and tax	366	(435)
Loss attributable to owners of the parent	(380)	(457)
Loss per share – Basic and diluted	(RMB1.9 fen)	(RMB2.2 fen)

[#] Consolidated gross profit = gross profit + other income and gains

The board of directors (the “Board”) of GOME Retail Holdings Limited (the “Company”) announces the unaudited interim financial information of the Company and its subsidiaries (the “Group”) for the six-month period ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended 30 June 2019

		For the six-month period ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	6	34,333,291	34,706,115
Cost of sales	7	(29,336,702)	(29,275,122)
Gross profit		4,996,589	5,430,993
Other income and gains	6	1,154,396	578,460
Selling and distribution expenses		(4,025,944)	(4,801,991)
Administrative expenses		(1,161,228)	(1,166,841)
Impairment losses on financial assets		(8,557)	(21,393)
Other expenses		(544,275)	(391,998)
Share of losses of associates		(45,396)	(62,498)
Profit/(loss) before finance (costs)/income and tax		365,585	(435,268)
Finance costs	8	(1,121,272)	(369,342)
Finance income	8	209,284	171,438
LOSS BEFORE TAX	7	(546,403)	(633,172)
Income tax expense	9	(74,598)	(87,795)
LOSS FOR THE PERIOD		(621,001)	(720,967)
Attributable to:			
Owners of the parent		(380,489)	(457,253)
Non-controlling interests		(240,512)	(263,714)
		(621,001)	(720,967)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
– Basic and diluted		(RMB1.9 fen)	(RMB2.2 fen)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019

	For the six-month period ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
LOSS FOR THE PERIOD	<u>(621,001)</u>	<u>(720,967)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>730</u>	<u>(1,990)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>730</u>	<u>(1,990)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of financial assets through other comprehensive income	<u>66,436</u>	<u>(150,254)</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u>66,436</u>	<u>(150,254)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>67,166</u>	<u>(152,244)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(553,835)</u>	<u>(873,211)</u>
Attributable to:		
Owners of the parent	<u>(313,323)</u>	<u>(609,497)</u>
Non-controlling interests	<u>(240,512)</u>	<u>(263,714)</u>
	<u>(553,835)</u>	<u>(873,211)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property and equipment		6,724,011	6,541,780
Property under development		339,976	—
Investment properties		2,048,747	907,044
Right-of-use assets		13,671,162	—
Goodwill		11,987,128	11,924,919
Other intangible assets		368,866	342,632
Investment in a joint venture		3,781	3,781
Investments in associates		236,483	281,879
Financial assets designated at fair value through other comprehensive income		815,721	550,285
Financial assets at fair value through profit or loss		870,953	851,668
Other non-current assets		222,253	2,061,231
Deferred tax assets		12,507	68,045
Total non-current assets		37,301,588	23,533,264
CURRENT ASSETS			
Inventories		9,310,329	8,221,237
Trade receivables	12	1,692,357	145,404
Prepayments, other receivables and other assets		5,691,861	5,807,707
Entrusted loan		500,000	500,000
Due from related companies		146,006	148,712
Financial assets at fair value through profit or loss		1,194,480	1,462,624
Pledged deposits		12,420,325	10,779,504
Cash and cash equivalents		10,105,707	10,143,339
Total current assets		41,061,065	37,208,527

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

As at 30 June 2019

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bills payables	14	24,044,267	21,350,182
Other payables and accruals		3,127,177	3,264,999
Contract liabilities		519,871	690,645
Interest-bearing bank loans and other borrowings	13	21,334,272	14,136,912
Due to related companies		179,580	108,407
Tax payable		970,735	1,053,301
		<u>50,175,902</u>	<u>40,604,446</u>
NET CURRENT LIABILITIES		(9,114,837)	(3,395,919)
TOTAL ASSETS LESS CURRENT LIABILITIES		28,186,751	20,137,345
NON-CURRENT LIABILITIES			
Due to related companies		1,272,006	1,672,006
Deferred tax liabilities		485,140	450,023
Interest-bearing bank loans and other borrowings	13	15,899,102	6,931,552
		<u>17,656,248</u>	<u>9,053,581</u>
Net assets		10,530,503	11,083,764
EQUITY			
Equity attributable to owners of the parent			
Issued capital		518,322	518,322
Reserves		13,245,793	13,559,325
		<u>13,764,115</u>	<u>14,077,647</u>
Non-controlling interests		(3,233,612)	(2,993,883)
Total equity		10,530,503	11,083,764

NOTES

1. CORPORATE INFORMATION

GOME Retail Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda.

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

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the six-month period ended 30 June 2019 (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 have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of RMB9,114,837,000 as at the end of the reporting period. In preparing this Interim Financial Information, the directors have given careful consideration to the current and anticipated future liquidity of the Group.

Taking into account, inter alia, (i) the expected net cash inflows generated from the Group’s operations for the next twelve months; and (ii) the unutilised banking facilities at the end of the reporting period, the directors are of the opinion that the Group will be able to meet its liabilities as and when they fall due. Accordingly, the directors consider that the preparation of this Interim Financial Information on a going concern basis is appropriate.

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 annual audited consolidated financial statements for the year ended 31 December 2018.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's Interim Financial Information. The nature and impact of the new and revised IFRSs are described below:

- a) IFRS 16 replaces IAS 17 *Leases*, IFRIC – 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC – 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC – 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts mainly for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets for most leases were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognized previously under finance lease of RMB172,431,118 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying IAS 40.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	15,038,415
Decrease in equipment	(172,431)
Decrease in prepayments, other receivables and other assets	(938,373)
Decrease in prepaid land lease payments	(1,372,400)
Increase in total assets	12,555,211
Liabilities	
Increase in interest-bearing bank loans and other borrowings	12,612,921
Decrease in other payables and accruals	(57,710)
Increase in total liabilities	12,555,211

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	17,155,023
Weighted average incremental borrowing rate as at 1 January 2019	7.22%
Discounted operating lease commitments as at 1 January 2019	12,844,769
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(217,254)
Lease liabilities as at 1 January 2019	12,627,515

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Summary of new accounting policies (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of their leases, to lease properties for additional years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. They consider all relevant factors that create an economic incentive for them to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "interest-bearing bank loans and other borrowings"), and the movements during the period are as follow:

	Right-of-use assets Buildings, lands and equipment RMB'000 (Unaudited)	Lease liabilities RMB'000 (Unaudited)
As at 1 January 2019	15,038,415	12,627,515
Additions	817,640	782,374
Depreciation charge	(1,454,443)	—
Modification	(558,019)	(603,693)
Interest expense	—	438,032
Payments	—	(1,741,975)
Transfer	(172,431)	—
As at 30 June 2019	<u>13,671,162</u>	<u>11,502,253</u>

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss (continued)

The Group recognised rental expenses from short-term leases of RMB305,244,000, variable lease payments not based on index or rate of RMB21,621,000 and rental income from subleasing right-of-use assets of RMB97,088,000 for the six-month period ended 30 June 2019.

- (b) IFRIC - 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group’s Interim Financial Information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the operations and management of networks of retail stores of electrical appliances and consumer electronic products and on-line sales of electronic products 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group’s loss before tax except that finance income, dividend income from listed investments, unallocated income, finance costs, losses on financial assets at fair value through profit or loss, share of losses of associates and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude investments in associates, investment in a joint venture, financial assets designated at fair value through other comprehensive income, financial assets at fair value through profit or loss, deferred tax assets, pledged deposits and cash and cash equivalents and other unallocated assets, as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans and other borrowings, tax payable, deferred tax liabilities and other unallocated liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

	For the six-month period ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment revenue		
Sales to external customers	34,333,291	34,706,115
Segment results	(483,586)	(301,875)
<i>Reconciliation</i>		
Finance income	209,284	171,438
Impairment losses on financial assets	(8,557)	(21,393)
Dividend income from financial assets at fair value through profit or loss	–	5,168
Unallocated income	170,779	1,153
Finance costs	(1,121,272)	(369,342)
Net gains/(losses) on financial assets at fair value through profit or loss	528,253	(13,587)
Share of losses of associates	(45,396)	(62,498)
Corporate and other unallocated expenses	204,092	(42,236)
Loss before tax	(546,403)	(633,172)
	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Segment assets	52,202,696	36,100,666
<i>Reconciliation</i>		
Corporate and other unallocated assets	26,159,957	24,641,125
Total assets	78,362,653	60,741,791
Segment liabilities	29,142,901	27,086,239
<i>Reconciliation</i>		
Corporate and other unallocated liabilities	38,689,249	22,571,788
Total liabilities	67,832,150	49,658,027

5. BUSINESS COMBINATION

On 13 September 2018, the Group entered into an agreement with 鵬潤控股有限公司 (“Pengrun Holdings Co., Ltd.”) pursuant to which the Group has conditionally agreed to acquire all the equity interests in 國美控股集團廣州有限公司 (“GOME Holdings Group Guangzhou Co., Ltd.” or the “Target Company”, a company registered in the PRC with limited liability). The Target Company and its wholly-owned subsidiary, own a property development project in Guangzhou, the PRC. On 25 January 2019, the transaction was completed.

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

	Fair value recognised on acquisition RMB'000
Property and equipment	428
Identifiable intangible assets*	—
Investment property	1,066,213
Property under development	456,948
Prepayments, other receivables and other assets	263,046
Cash and cash equivalents	1,920
Trade and bills payables	(2)
Other payables and accruals	(475,052)
Interest-bearing bank loans	(700,000)
Deferred tax liabilities	(72,326)
Total identifiable net assets at fair value	541,175
Goodwill on acquisition**	62,209
	603,384
Satisfied by	
Cash	301,692
Prepayments, deposits and other receivables	301,692
	603,384

* The fair value of the acquired identifiable intangible assets is provisional and pending to the final valuation results performed by independent professionally qualified valuers.

** The goodwill is provisional and subject to final valuation results of identifiable intangible assets and other identifiable assets and liabilities.

The fair value of the other receivables as at the date of acquisition amounted to RMB263,046,000. The gross contractual amounts of other receivables were RMB263,046,000.

The Group incurred transaction costs of RMB450,000 for this acquisition. These transaction costs have been expensed and are included in the interim condensed consolidated statement of profit or loss.

5. BUSINESS COMBINATION (continued)

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

	<i>RMB'000</i>
Cash consideration	(301,692)
Cash and cash balances acquired	1,920
Net outflow of cash and cash equivalents	(299,772)

Since the acquisition, the Target Company didn't generate any revenue and contributed RMB1,261,000 to the Group's consolidated loss for the six-month period ended 30 June 2019.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the loss of the Group for the six-month period ended 30 June 2019 would have been RMB34,333,291,000 and RMB621,001,000, respectively.

6. REVENUE, OTHER INCOME AND GAINS

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

		For the six-month period ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue			
Sale of electrical appliances and consumer electronic products		34,333,291	34,706,115
Other income			
Income from installation		97,894	77,436
Other service fee income		139,898	185,080
Compensation and penalty income		6,570	6,212
Other income from telecommunication service providers		50,540	53,852
Commission income from providing on-line platforms		31,490	26,643
Gross rental income		119,209	132,615
Government grants	(i)	106,007	45,748
Income from bank deposits and financial products		7,041	7,734
Dividend income from financial assets at fair value through profit or loss		—	5,168
Gain on lease modifications		45,674	—
Others		21,820	37,211
		626,143	577,699
Fair value gains:			
Financial assets at fair value through profit or loss		528,253	761
		1,154,396	578,460

Note:

- (i) 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.

7. LOSS BEFORE TAX

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

	<i>Note</i>	For the six-month period ended 30 June	
		2019 (Unaudited) <i>RMB'000</i>	2018 (Unaudited) <i>RMB'000</i>
Cost of inventories sold		29,336,702	29,275,122
Depreciation of right-of-use assets		1,454,443	–
Depreciation of property and equipment		404,137	397,974
Amortisation of other intangible assets		33,766	22,945
Amortisation of prepaid land lease payments		–	17,339
Losses on disposal of property and equipment*		8,621	9,095
Net (gains)/losses on financial assets at fair value through profit or loss		(528,253)	13,587
Gross rental income	6	(119,209)	(132,615)
Foreign exchange differences, net*		7,708	33,337
Impairment losses on financial assets		8,557	21,393
Impairment losses/(reversal of impairment losses) on property and equipment*		21,964	(15,348)

Note:

- * These items are included in “Other expenses” in the interim condensed consolidated statement of profit or loss.

8. FINANCE (COSTS)/INCOME

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

	For the six-month period ended 30 June	
	2019 (Unaudited) <i>RMB'000</i>	2018 (Unaudited) <i>RMB'000</i>
Finance costs:		
Interest expense on lease liabilities	(438,032)	(1,200)
Interest expense on bonds payable	(385,387)	(316,089)
Interest expense on borrowings from related parties	(35,228)	(40,227)
Interest on discounted bills	(189,558)	–
Interest expense on bank loans and other borrowings	(151,767)	(54,455)
Total interest expense on financial liabilities not at fair value through profit or loss	(1,199,972)	(411,971)
Less: Interest capitalised	78,700	42,629
	<u>(1,121,272)</u>	<u>(369,342)</u>
Finance income:		
Bank interest income	209,284	171,438

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six-month period ended 30 June 2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – PRC		
Charge for the period	64,614	211,143
Deferred income tax	9,984	(123,348)
Total tax charge for the period	74,598	87,795

10. DIVIDENDS

Pursuant to the board of directors' resolution dated 27 August 2019, the board did not recommend the payment of an interim dividend for the six-month period ended 30 June 2019.

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of RMB380,489,000 (six-month period ended 30 June 2018: RMB457,253,000), and the weighted average number of ordinary shares of 20,066,084,000 (six-month period ended 30 June 2018: 21,012,608,000) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the six-month period ended 30 June 2019 and 2018 in respect of the dilution as the impact of the Company's warrants and share appreciation rights outstanding had no dilutive effect on the basic loss per share amount presented.

12. TRADE RECEIVABLES

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

	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Outstanding balances, aged:		
Within 3 months	945,214	134,571
3 to 6 months	744,388	10,069
6 months to 1 year	2,755	764
	1,692,357	145,404

13. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

30 June 2019					31 December 2018		
Notes	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)		Effective interest rate (%)	Maturity	RMB'000 (Audited)
Current							
Bank loans – secured	(i) 0.25-8.35	2019-2020	14,915,483		1.00-6.12	2019	11,077,696
Bank loans – unsecured	0.53	2019	3,190		0.53-5.95	2019	423,051
Other loans – secured	(i) 6.09-9.00	2019-2020	349,687		9.23	2019	306,671
Bonds payable- unsecured	(iii) 4.59-5.26	2020	3,389,142		4.46-4.79	2019	2,316,631
Current portion of lease liabilities	3.72-11.01	2020	2,676,770		4.99	2019	12,863
			<u>21,334,272</u>				<u>14,136,912</u>
Non-current							
Bank loans – secured	(ii) 4.90-8.00	2026-2032	1,289,475		4.90-5.05	2028-2032	321,592
Other loan – secured	(i) 6.09	2024	136,426		–	–	–
Bonds payable-unsecured	(iv) 4.79-7.87	2022-2025	5,647,718		7.93	2024	6,609,960
Lease liabilities-unsecured	3.72-11.01	2021-2033	8,825,483		–	–	–
			<u>15,899,102</u>				<u>6,931,552</u>
Analysed into:							
Bank loans repayable:							
Within one year			14,918,673				11,500,747
In the second year			245,000				17,500
In the third to fifth years, inclusive			693,305				92,754
Beyond five years			351,170				211,338
			<u>16,208,148</u>				<u>11,822,339</u>

- (i) Certain of the Group's bank loans and other loans are secured by:
- (a) mortgages over the Group's investment properties and buildings;
 - (b) the pledge of certain of the Group's equipment;
 - (c) the pledge of certain of the Group's time deposits;
 - (d) the pledge of certain of the Group's financial assets at fair value through profit or loss; and
 - (e) the Group's certain subsidiaries' guarantees.
- (ii) Certain of the Group's non-current bank loans as at 30 June 2019 were secured by the Group's land use right, property under development and investment property.
- (iii) Overseas corporate bonds with an aggregate principal amount of USD496,000,000 and a carrying amount of RMB3,389,142,000, which bear interest at 5.0% per annum and will be redeemed at their principal amount on 10 March 2020.
- (iv) Domestic corporate bonds with an aggregate principal amount of RMB5,555,604,000 and a carrying amount of RMB5,647,718,000, which bear interests at rates of 7.6% to 7.8% per annum.

14. TRADE AND BILLS PAYABLES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade payables	7,104,637	5,955,199
Bills payable	<u>16,939,630</u>	<u>15,394,983</u>
	<u>24,044,267</u>	<u>21,350,182</u>

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 3 months	10,215,675	11,114,288
3 to 6 months	10,372,584	8,575,334
Over 6 months	<u>3,456,008</u>	<u>1,660,560</u>
	<u>24,044,267</u>	<u>21,350,182</u>

The Group's bills payable above are secured by:

- (i) the pledge of certain of the Group's time deposits;
- (ii) the pledge of certain of the Group's buildings; and
- (iii) the pledge of certain of the Group's investment properties.

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

15. EVENTS AFTER THE REPORTING PERIOD

On 16 August 2019, the Group entered into an agreement with Rocket Gain Investments Limited pursuant to which the Group has conditionally agreed to acquire 19.5% equity interests in 北京鵬潤時代物業管理有限公司 ("Beijing Pengrun Times Property Management Company Limited" or "Pengrun Times", a limited liability company established in the PRC) for an aggregate consideration of RMB585,000,000. Pengrun Times indirectly holds the entire equity interests in 安迅物流有限公司 (Anxun Logistics Co., Ltd. or "Anxun Logistics"). Anxun Logistics is principally engaged in the provision of warehousing management and logistics services in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the six-month period ended 30 June 2019 (the “Reporting Period”), GOME Retail Holdings Limited (the “Company”, with its subsidiaries, collectively known as the “Group” or “GOME”) fully implemented the “Home • Living” strategy and put great efforts in innovation and transformation. Adhering to the core concept of “Home”, the Company strived to evolve into an integrated provider of “Home • Living” solutions, service solutions and supply chains from a home appliance retailer. In line with the “Home • Living” strategy, the Company interacted closely with its users through providing home appliances, home decoration, house furnishing and home services, in an effort to raise the quality of life of the households in China.

During the Reporting Period, the Group’s total gross merchandise volume (“GMV”) increased by approximately 1.80% as compared with the corresponding period of last year, among which, the county-level stores (self-operated stores + new retail stores) GMV grew by approximately 339%, Me Shop GMV grew by approximately 123%, GMV from the smart products grew by approximately 62%, GMV from new businesses such as home solution and integration of kitchen cabinets with electrical appliances grew by approximately 108% and service GMV grew by approximately 32%.

During the Reporting Period, the Group recorded sales revenue of approximately RMB34,333 million, relatively stable as compared with RMB34,706 million for the corresponding period last year. The Group’s consolidated gross profit margin increased slightly by 0.60 percentage point from the 17.32% in the corresponding period last year to approximately 17.92%. Operating expenses ratio decreased by 1.64 percentage points from 18.33% in the corresponding period last year to approximately 16.69%. Profit before finance (costs)/income and tax was approximately RMB366 million, as compared with a loss of RMB435 million for the corresponding period in 2018. In addition, the Group’s financial costs still stood at a relatively high level of approximately RMB1,121 million as compared with RMB369 million in the corresponding period last year. Taking into account the above factors, the Group’s loss attributable to owners of the parent company was approximately RMB380 million, a reduction as compared with the loss of RMB457 million in the corresponding period last year. As of 30 June 2019, the Group had sufficient capital with cash and cash equivalents of approximately RMB10,106 million.

In 2019, GOME has entered a critical stage of its strategic transformation. Leveraging on the advantages of internet technology, GOME has set up a user-base interaction and operation platform under the integration of the three terminals – the GOME APP, physical stores and ME Shop. GOME has also continued to provide users with advanced “comprehensive solutions for smart home” in order to establish the new retail pathway with GOME’s iconic characteristics.

FINANCIAL REVIEW

Certain comparative amounts have been reclassified to conform with the Reporting Period's presentation.

Revenue

During the Reporting Period, the Group continued to focus on its “Home • Living” strategy. Sales revenue of the Group was approximately RMB34,333 million, relatively stable as compared with RMB34,706 million for the corresponding period last year. During the Reporting Period, sales revenue from the 1,380 comparable stores was approximately RMB26,912 million, down 4.14% as compared with RMB28,074 million for the corresponding period in 2018. In addition, the proportion of revenue from county-level stores has increased to 5.49% of total revenue while the revenue from new businesses (including integration of kitchen cabinets with electrical appliances, home decoration and home furnishing, etc.) has increased to 5.20% of total revenue.

Cost of Sales and Gross Profit

During the Reporting Period, cost of sales for the Group was approximately RMB29,337 million, accounting for approximately 85.45% of the total sales revenue, as compared with 84.35% for the corresponding period in 2018. The Group's gross profit was approximately RMB4,997 million, as compared with RMB5,431 million for the corresponding period last year. Gross profit margin was approximately 14.55%, decreased slightly by 1.10 percentage points as compared with 15.65% for the corresponding period last year. The gross profit margins of each product category remained relatively stable as compared with the corresponding period last year.

Other Income and Gains

During the Reporting Period, the Group recorded other income and gains of approximately RMB1,154 million, representing an increase of 99.65% as compared with RMB578 million for the corresponding period in 2018. Mainly due to the increase in gains on financial assets at fair value through profit or loss during the Reporting Period amounted to approximately RMB528 million.

Consolidated Gross Profit Margin

During the Reporting Period, as the gross profit margin remained stable while the other income and gains increased, the Group's consolidated gross profit margin increased slightly by 0.60 percentage point from 17.32% in the corresponding period of 2018 to 17.92%.

Operating Expenses

During the Reporting Period, the Group's total operating expenses (comprised of selling and distribution expenses, administrative expenses and other expenses) were approximately RMB5,731 million, decreased by 9.90% as compared with RMB6,361 million for the corresponding period last year. The operating expenses ratio was 16.69%, down by 1.64 percentage points as compared with 18.33% for the corresponding period in 2018.

The decrease in operating expenses was mainly due to, among others, the adoption of IFRS 16 by the Group in 2019. The rental expenses were adjusted and reclassified and will be further discussed in the section headed “Selling and Distribution Expenses” below.

Selling and Distribution Expenses

During the Reporting Period, the Group's total selling and distribution expenses amounted to approximately RMB4,026 million, reduced by 16.16% as compared with RMB4,802 million for the corresponding period last year. The selling and distribution expenses as a percentage over sales revenue was 11.73%, decreased by 2.11 percentage points as compared with 13.84% for the corresponding period in 2018.

The decrease in selling and distribution expenses was mainly due to, among others, the adoption of IFRS 16 by the Group in 2019. Upon the adoption of IFRS 16, the rental expenses will be reflected in (1) rental expenses, to represent short-term leases; (2) the depreciation charge of right-of-use assets (included within "selling and distribution expenses"); and (3) interest expense (included within "finance costs"). As the results of the abovementioned adjustments, during the Reporting Period, the rental expenses decreased substantially from RMB2,063 million in the corresponding period last year to approximately RMB332 million, and the depreciation increased substantially from RMB277 million in the corresponding period last year to approximately RMB1,587 million. The impact on finance costs is further discussed in the section headed "Net Finance (Costs)/Income" below. Details of the impact of the adoption of IFRS 16 are set out in note 3 to the financial statements.

In addition, during the Reporting Period, the Group's staff cost was approximately RMB1,129 million, representing a decrease of 6.54% as compared with RMB1,208 million in the corresponding period last year. Through low-cost traffic attracted from the ME Shop, the advertising expenses were significantly reduced by 43.44% from RMB419 million in the corresponding period last year to approximately RMB237 million.

Administrative Expenses

During the Reporting Period, administrative expenses of the Group were approximately RMB1,161 million, decreased slightly by 0.51% as compared with RMB1,167 million for the corresponding period last year. The proportion over sales revenue was 3.38%, remained stable as compared with 3.36% for the corresponding period in 2018. The Group has always strive to strengthen its control over administrative expenses in order to maintain its expenses ratio at a relatively low level in the industry.

Other Expenses

During the Reporting Period, other expenses of the Group mainly comprised, among others, business tax, bank charges and loss on the closed stores, which increased by 38.78% from RMB392 million for the corresponding period in 2018 to approximately RMB544 million. The increase was mainly attributable to the increase in loss on the closed stores during the optimisation of store network by the Group in the Reporting Period. The other expenses ratio was approximately 1.58%, up 0.45 percentage point as compared with 1.13% for the corresponding period in 2018.

Profit/(Loss) before Finance (Costs)/Income and Tax

As the results of the increase in consolidated gross profit margin and decrease in operating expenses ratio during the Reporting Period, the Group recorded a profit before finance (costs)/income and tax of approximately RMB366 million, as compared with a loss of RMB435 million for the corresponding period in 2018.

Net Finance (Costs)/Income

During the Reporting Period, the Group's net finance costs (finance income less finance costs) were approximately RMB912 million, as compared with RMB198 million in the first half of 2018. The increase in the net finance costs was mainly due to (1) an amount of approximately RMB438 million regarding the interest expense on lease liabilities was recorded in the finance costs upon the adoption of IFRS 16 during the Reporting Period; and (2) interest on discounted bills increased by approximately RMB190 million.

Loss before Tax

As a result of the above-mentioned factors, during the Reporting Period, the Group's loss before tax was approximately RMB546 million, a reduction as compared with a loss of RMB633 million for the corresponding period in 2018.

Income Tax Expense

During the Reporting Period, the Group's income tax expense decreased from RMB88 million for the corresponding period in 2018 to approximately RMB75 million. The management of the Company considers that the effective tax rate applied to the Group for the Reporting Period was reasonable.

Loss for the Period and Loss per Share Attributable to Owners of the Parent

During the Reporting Period, the Group's loss attributable to owners of the parent was approximately RMB380 million, a reduction as compared with a loss of RMB457 million for the corresponding period last year.

During the Reporting Period, the Group's basic loss per share was RMB1.9 fen, as compared with loss per share of RMB2.2 fen for the corresponding period last year.

Cash and Cash Equivalents

As at the end of the Reporting Period, cash and cash equivalents held by the Group were approximately RMB10,106 million, relatively stable as compared with RMB10,143 million as at the end of 2018.

Inventories

As at the end of the Reporting Period, the Group's inventories amounted to approximately RMB9,310 million, up 13.25% as compared with RMB8,221 million as at the end of 2018. Inventory turnover days were approximately 54 days during the Reporting Period, decreased by 12 days as compared with 66 days in the first half of 2018.

Prepayments, Other Receivables and Other Assets

As at the end of the Reporting Period, prepayments, other receivables and other assets of the Group amounted to approximately RMB5,692 million, down 2.0% from RMB5,808 million as at the end of 2018.

Trade and Bills Payables

As at the end of the Reporting Period, trade and bills payables of the Group amounted to approximately RMB24,044 million, up 12.62% as compared with RMB21,350 million as at the end of 2018. Turnover days of trade and bills payables were approximately 140 days during the Reporting Period, reduced by 1 day as compared with 141 days for the corresponding period in 2018.

Capital Expenditure

During the Reporting Period, capital expenditure incurred by the Group amounted to approximately RMB745 million, representing a 67.79% increase as compared with RMB444 million for the first half of 2018. The capital expenditure during the period was mainly for opening of new stores, remodelling of stores, development of logistic centers and upgrading the information system of the Group.

Cash Flows

During the Reporting Period, the Group's net cash flows from operating activities amounted to approximately RMB193 million, as compared with cash flows of RMB706 million for the corresponding period last year.

Mainly due to the inclusion of proceeds paid for the purchase of property and equipment with regard to the development of logistic centers, opening of new stores and remodelling of stores amounted to approximately RMB579 million, net cash flows used in investing activities amounted to approximately RMB387 million, as compared with RMB572 million for the first half of 2018.

During the Reporting Period, net cash flows from financing activities amounted to approximately RMB153 million, as compared with RMB108 million in the first half of 2018.

Contingent Liabilities and Capital Commitments

As at the end of the Reporting Period, the Group had no material contingent liabilities. The Group had capital commitments of approximately RMB876 million.

Foreign Currencies and Treasury Policy

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

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

Financial Resources and Gearing Ratio

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

As at 30 June 2019, the total borrowings of the Group were the interest-bearing bank loans, other loans, loans due to related companies, the corporate bonds and the overseas bonds.

The current interest-bearing bank loans and other loans comprised:

	Fixed rate <i>RMB'000</i>	Floating rate <i>RMB'000</i>	Total <i>RMB'000</i>
Denominated in EUR	–	2,023,050	2,023,050
Denominated in US\$	–	1,676,851	1,676,851
Denominated in HK\$	–	307,895	307,895
Denominated in RMB	643,473	10,613,901	11,257,374
Denominated in JPY	3,190	–	3,190
	<u>646,663</u>	<u>14,621,697</u>	<u>15,268,360</u>

The above borrowings were repayable within 1 year.

The non-current interest-bearing bank loans and other loan comprised:

	Fixed rate <i>RMB'000</i>	Floating rate <i>RMB'000</i>	Total <i>RMB'000</i>
Denominated in RMB			
Repayable in the second year	–	245,000	245,000
Repayable in the third to fifth years, inclusive	136,426	693,305	829,731
Repayable beyond five years	–	351,170	351,170
	<u>136,426</u>	<u>1,289,475</u>	<u>1,425,901</u>

The loans due to related companies comprised:

	Fixed rate <i>RMB'000</i>	Floating rate <i>RMB'000</i>	Total <i>RMB'000</i>
Denominated in RMB			
Repayable within three years	<u>1,272,006</u>	<u>–</u>	<u>1,272,006</u>
	<u>1,272,006</u>	<u>–</u>	<u>1,272,006</u>

The corporate bonds comprised:

- (1) corporate bonds issued in 2016, renewed and resale in 2019 with an aggregate nominal value of RMB4,456 million issued at fixed coupon rate of 7.6% per annum with remaining term of 3 years;
- (2) corporate bonds issued in 2018 with an aggregate nominal value of RMB600 million issued at a fixed coupon rate of 7.8% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rate and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the second and fourth year; and
- (3) corporate bonds issued in 2019 with an aggregate nominal value of RMB500 million issued at a fixed coupon rate of 7.8% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rate and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the second and fourth year.

The overseas bonds comprised:

Bonds issued in 2017 with an aggregate principal amount of US\$500 million and with 5% coupon rate due 2020. The outstanding balance of the overseas bonds as at 30 June 2019 was US\$496 million.

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

As at 30 June 2019, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounted to approximately RMB27,003 million over total equity amounted to approximately RMB10,531 million, increased from 205.05% as at 31 December 2018 to 256.41%. The debt ratio was 34.46% as compared with 37.42% as at 31 December 2018, which was expressed as a percentage of total borrowings over total assets amounting to approximately RMB78,363 million.

Charge on Group Assets

As at 30 June 2019, the Group's bills payables and interest-bearing bank loans and other loans were secured by the Group's time deposits amounting to approximately RMB12,248 million, certain property and equipment, property under development and investment properties of the Group with a carrying value of approximately RMB3,876 million, the Group's financial assets with a carrying amount of approximately RMB1,194 million and prepaid land lease payments with carrying amount of approximately RMB1,132 million. The Group's bills payables and interest-bearing bank loans and other borrowings amounted to approximately RMB33,634 million in total.

TALENT AND EXPERTISE

During the Reporting Period, the Group continued to promote the ideology of “think from the perspective of a customer and create value”. More efforts were made to develop the career paths for staff and select talents for new businesses in line with the strategic transformation of the Group.

The Group also placed an emphasis on the training courses under its “Twelve-hour Leadership Campaign” (領導力十二小時) which featured four main topics, namely customer experience, problem-solving, efficiency enhancement and productivity improvement. These training programs have also perfected the career ladders from entry-level staff to senior management, and incubated talents for new projects and new businesses.

In the first half of 2019, the Group received “CCFA Outstanding Corporate Universities Best Learning Project Award” (CCFA優秀企業大學最佳學習項目獎).

As at 30 June 2019, the Group had a total of 36,769 employees.

OUTLOOK AND PROSPECTS

Focusing on Diverse Businesses and Providing One-stop Solutions

GOME’s comprehensive home solution will continue to provide a personalized and intelligent one-stop “home appliance, home decoration, home furnishing and home services” innovative experience to its customers. By way of a variety of new businesses such as integrated kitchen cabinets and electrical appliances, Cozy Home (central air-conditioning, heating and ventilation, and fresh air system), kitchen space solutions and home furnishing, the Group will continue to focus on target marketing to attract the customers from all sources. In addition, the second wave of IXINA stores, GOME’s self-operating integrated kitchen cabinets and electrical appliances business, in collaboration with Europe’s top cabinet chain brand IXINA, will be opening in cities like Wuxi and Nanjing after Beijing and Shanghai to further expand the brand’s reputation. Cozy Home, the home hardware integration solutions, will also be developing at full speed.

Penetrating into Lower-tier Markets to Empower New Retailing

GOME will accelerate its penetration into lower-tier markets. By enhancing existing business and expanding emerging business, the Group strives to enhance its competitive advantage. Through the new retail stores (franchise stores), franchisers, brands and retailers can empower each other. With advantages in brand, supply chain and logistics, GOME will further expand into third- to sixth-tier cities and meet the constantly growing demand of these markets. It is estimated that the number of newly opened county-level stores of the Group will be approximately 1,000 in 2019.

Seamless Social Communication, ME Shop Stimulating Low-cost Traffic Acquisition

Most of GOME’s low-cost traffic comes from its physical stores and ME Shop. Owing to the rapid development of social communication, GOME will eventually create a concentrated and boundless consumer network. ME Shop has achieved high turnover rate of single products through marketing campaigns such as “ten thousand group purchase”, “thousand group purchase” and other measures and has enhanced customer loyalty. Currently, 580,000 people have become store owners on ME Shop and it is expected to reach 900,000 in the second half of the year.

Self-developed R&D + Open Source: “Dual Lanes” Optimising the 5G Intelligent Ecosystem

The 5G era is on the horizon, allowing IoT to embrace a new opportunity. With its own products and smart open platform, GOME will continue to build an enormous GOME smart product matrix to provide comprehensive smart home solutions for its customers. Moreover, GOME has started the strategic collaborations with Huawei to accelerate the construction of smart application scenarios in its offline stores and has started to cooperate with telecommunication operators to build 5G smart showrooms.

Intelligence System Empowering the Full Life-cycle of Home Appliances

GOME will continue to focus on the life-cycle of smart home, provide technology-enabled services to develop and expand the after-sale services of household appliances based on the consumer behavior. Through the specific services such as sending reminder for maintenance and trade-in program, GOME actively interacts with users at high frequency in order to boost repurchase.

INTERIM DIVIDEND AND DIVIDEND POLICY

The board of directors of the Company (the “Board”) did not recommend the payment of an interim dividend for the six-month period ended 30 June 2019 so as to preserve capital for the funding needs of the Group.

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

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

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000,000,000, RMB300,000,000 and RMB1,700,000,000, respectively on the Shanghai Stock Exchange. As at 30 June 2019, the Group has completed the renewal and resale of all the three tranches of bonds with the bond holders and the total outstanding principal amount was RMB4,455,604,000. The original coupon rates of 4% to 4.5% per annum were adjusted to 7.6% per annum since the renewal dates with remaining term of 3 years.

In February 2019, the Group issued domestic bonds with an aggregate principal amount of RMB500,000,000 at coupon rate of 7.8% per annum in the PRC. Such domestic bonds have a term of 6 years. The issuer will be entitled to adjust the coupon rate and the investors will be entitled to sell back the domestic bonds to the issuer at the end of the second and fourth year.

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 2019.

CORPORATE GOVERNANCE

The Company is committed to upholding good corporate governance practices. For the six-month period ended 30 June 2019, the Company was in compliance with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules. Upon specific enquiries made by the Company, all directors of the Company have confirmed their compliance with the Model Code during the period under review.

REVIEW BY AUDIT COMMITTEE AND EXTERNAL AUDITORS

The Audit Committee of the Company has reviewed the interim results of the Company, together with the internal control and financial reporting matters of the Group, which includes the unaudited interim condensed consolidated financial information of the Group for the six-month period ended 30 June 2019 as reviewed by Ernst & Young, the external auditors.

CESSATION TO FURTHER ANNOUNCE AND PUBLISH QUARTERLY FINANCIAL RESULTS

The Board has on 27 August 2019 resolved not to further announce and publish the Company’s quarterly financial results for the first three-month and nine-month periods of this and subsequent financial years in order to reduce the administrative burden of the Company and allow the Company to devote more of resources towards the development of its business.

The Board considers that with its rapidly business transformation and development, this arrangement is in the best interest of the Company. The Company will continue to announce and publish its interim and annual results and reports in accordance with the requirements of the Listing Rules.

PUBLICATION INFORMATION ON THE STOCK EXCHANGE’S WEBSITE

This announcement will be published on the websites of the Stock Exchange and the Company (www.gome.com.hk). The 2019 Interim Report will also be published on the websites of the Stock Exchange and the Company 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 Retail Holdings Limited
Zhang Da Zhong
Chairman

Hong Kong, 27 August 2019

As at the date of this announcement, the Board of the Company comprises Mr. Zou Xiao Chun as executive director; Mr. Zhang Da Zhong, Ms. Huang Xiu Hong and Mr. Yu Sing Wong as non-executive directors; and Mr. Lee Kong Wai, Conway, Ms. Liu Hong Yu and Mr. Wang Gao as independent non-executive directors.

* For identification purpose only