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 2018

FINANCIAL HIGHLIGHTS

	First half of 2018 *RMBm*	First half of 2017 *RMBm*
Revenue	**34,706**	38,073
Gross profit	**5,286**	5,684
Consolidated gross profit margin#	**17.32%**	17.83%
(Loss)/profit before finance (costs)/income and tax	**(435)**	256
(Loss)/profit attributable to owners of the parent	**(457)**	122
(Loss)/earnings per share – Basic and diluted	**(RMB2.2 fen)**	RMB0.6 fen

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

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 2018 together with the comparative figures for the corresponding period in 2017 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended 30 June 2018

		For the six-month period ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*6*	**34,706,115**	38,072,640
Cost of sales	*7*	**(29,420,251)**	(32,388,584)
Gross profit		**5,285,864**	5,684,056
Other income and gains	*6*	**723,589**	1,103,757
Selling and distribution expenses		**(4,801,991)**	(4,797,479)
Administrative expenses		**(1,166,841)**	(1,122,699)
Other expenses		**(413,391)**	(609,115)
Share of losses of associates		**(62,498)**	(2,819)
(Loss)/profit before finance (costs)/income and tax		**(435,268)**	255,701
Finance costs	*8*	**(369,342)**	(322,692)
Finance income	*8*	**171,438**	140,535
(LOSS)/PROFIT BEFORE TAX	*7*	**(633,172)**	73,544
Income tax expense	*9*	**(87,795)**	(179,826)
LOSS FOR THE PERIOD		**(720,967)**	(106,282)
Attributable to:			
Owners of the parent		**(457,253)**	121,851
Non-controlling interests		**(263,714)**	(228,133)
		(720,967)	(106,282)
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
– Basic and diluted		**(RMB2.2 fen)**	RMB0.6 fen

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2018

		For the six-month period ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***RMB'000***	*RMB'000*
LOSS FOR THE PERIOD		**(720,967)**	(106,282)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments		**–**	(165,362)
Exchange differences on translation of foreign operations		**(1,990)**	317
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(1,990)**	(165,045)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of financial assets through other comprehensive income	*11*	**(150,254)**	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(150,254)**	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(152,244)**	(165,045)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(873,211)**	(271,327)
Attributable to:			
Owners of the parent		**(609,497)**	(43,194)
Non-controlling interests		**(263,714)**	(228,133)
		(873,211)	(271,327)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	**30 June 2018 (Unaudited) *RMB'000***	31 December 2017 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**6,550,774**	6,398,106
Investment properties		**903,936**	901,285
Goodwill		**14,110,000**	14,110,000
Other intangible assets		**365,577**	388,522
Investments in associates		**142,245**	201,684
Investment in a joint venture		**3,781**	3,781
Other investments		**–**	1,956,320
Financial assets at fair value	*11*	**2,066,162**	–
Lease prepayments and deposits		**2,081,159**	2,142,728
Entrusted loans		**500,000**	500,000
Deferred tax assets		**140,600**	48,789
Total non-current assets		**26,864,234**	26,651,215
CURRENT ASSETS			
Inventories		**10,119,629**	11,255,447
Right of return assets		**82,834**	–
Trade and bills receivables	*12*	**205,403**	186,370
Prepayments, deposits and other receivables		**4,945,221**	5,053,080
Due from related companies		**281,035**	349,953
Financial assets at fair value	*11*	**3,436,858**	–
Equity investments at fair value through profit or loss		**–**	3,748,709
Pledged deposits		**8,428,701**	6,735,401
Cash and cash equivalents		**9,511,577**	9,243,844
Total current assets		**37,011,258**	36,572,804
CURRENT LIABILITIES			
Trade and bills payables	*13*	**22,997,892**	22,838,893
Current portion of finance lease payable		**39,027**	51,994
Contract liabilities		**561,177**	–
Refund liabilities		**97,965**	–
Customers' deposits, other payables and accruals		**3,042,916**	4,296,710
Interest-bearing bank loans		**4,102,478**	3,025,262
Due to related companies		**66,623**	121,820
Tax payable		**1,080,097**	1,059,600
Current portion of bonds payable	*14*	**8,888,130**	3,949,387
Total current liabilities		**40,876,305**	35,343,666

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2018

	Note	**30 June 2018 (Unaudited)** *RMB'000*	31 December 2017 (Audited) *RMB'000*
NET CURRENT (LIABILITIES)/ASSETS		**(3,865,047)**	1,229,138
TOTAL ASSETS LESS CURRENT LIABILITIES		**22,999,187**	27,880,353
NON-CURRENT LIABILITIES			
Bonds payable	*14*	**3,287,024**	8,165,796
Due to related companies		**1,672,006**	1,617,682
Deferred tax liabilities		**439,819**	460,765
Interest-bearing bank loans		**1,218,199**	96,938
Finance lease payable		**–**	12,946
Total non-current liabilities		**6,617,048**	10,354,127
Net assets		**16,382,139**	17,526,226
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**518,322**	518,322
Reserves		**18,514,430**	19,394,803
		19,032,752	19,913,125
Non-controlling interests		**(2,650,613)**	(2,386,899)
Total equity		**16,382,139**	17,526,226

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 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 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 financial information for the six-month period ended 30 June 2018 (the "Interim Financial Information") has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB").

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2017.

Despite that the Group had net current liabilities of RMB3,865,047,000, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, taking into account the positive cash flows from operating activities of the Group and the following:

(a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group's principal bankers; and

(b) realisation of certain investments or properties.

In addition, the Group will consider equity and/or debt financing when necessary.

Accordingly, these financial statements have been prepared on the going concern basis which assumes, inter alia, the realisation of assets and satisfaction of liabilities in the normal course of business.

3. CHANGES IN THE GROUP'S 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 2017, except for the adoption of new amendments effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments without restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations were applied for the first time in 2018, but did not have an impact on the interim condensed consolidated financial statements of the Group.

3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES (continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts,* IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption.

The Group is in the business of operations and management of networks of retail stores of electrical appliances and consumer electronic products and on-line sales of electronic products. The products are sold on their own in separately identified contracts with customers.

Sale of goods

The Group's contracts with customers for the sale of products generally include one performance obligation. The Group has concluded that revenue from sale of products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition. However, the new classification and measurement are summarized as below.

(i) *Variable consideration*

Some contracts for the sale of products provide customers with a right of return. Prior to the adoption of IFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns. If revenue could not be reliably measured, the Group deferred revenue recognition until the uncertainty was resolved.

Under IFRS 15, rights of return give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

(a) Rights of return

When a contract provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns using an approach similar to the expected value method under IFRS 15. Prior to adoption of IFRS 15, the amount of revenue related to the expected returns was deferred and recognised in the statement of financial position within customers' deposits, other payables and accruals with a corresponding adjustment to cost of sales. The initial carrying amount of goods expected to be returned was included within inventories.

Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Group presents a refund liability and an asset for the right to recover products from a customer separately in the statement of financial position. Upon adoption of IFRS 15, the Group reclassified the provision for the right of return from customers' deposits, other payables and accruals to refund liabilities and the related return asset from inventories to right of return assets.

3. **CHANGES IN THE GROUP'S ACCOUNTING POLICIES (continued)**

IFRS 15 *Revenue from Contracts with Customers (continued)*

Sale of goods (continued)

(i) Variable consideration (continued)

(b) Loyalty points programme

The Group operates a loyalty points programme, which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for free products, subject to a minimum number of points obtained. Prior to the adoption of IFRS 15, the loyalty programme offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and allocate a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The deferred revenue related to this loyalty points programme was reclassified to contract liabilities.

Rendering of services

The Group provides installation and maintenance services. These services are sold either separately or bundled together with the sale of electrical appliances to a customer. The installation services can be obtained from other providers and do not significantly customize or modify the products.

Under IFRS 15, the Group concluded that revenue from installation and maintenance services will continue to be recognised at a point in time, when the services have been rendered. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition. Revenue from the sale of the products will continue to be recognised at a point in time upon delivery electrical appliances.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments*: Recognition and Measurement is effective for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 without adjusting the comparative information.

The effect of the changes made to the interim condensed consolidated statement of financial position as at 1 January 2018 for the adoption of IFRS 9 was as follows:

At 1 January 2018	**Other investments** *RMB'000*	**Equity investment at fair value through profit or loss** *RMB'000*	**Financial assets at fair value through profit or loss** *RMB'000*	**Financial assets at fair value through other comprehensive income** *RMB'000*	**Total** *RMB'000*
Opening balance – IAS 39	1,956,320	3,748,709	–	–	5,705,029
Reclassification of other investments to financial assets at fair value through profit or loss	(1,210,235)	–	1,210,235	–	–
Reclassification of other investments to financial assets at fair value through other comprehensive income	(746,085)	–	–	746,085	–
Reclassification of equity investments at fair value through profit or loss to financial assets at fair value through profit or loss	–	(3,748,709)	3,748,709	–	–
Adoption of IFRS 9	–	–	33,464	–	33,464
Opening balance – IFRS 9	–	–	4,992,408	746,085	5,738,493

The effect resulting from this reclassification on the Group's retained earnings as at 1 January 2018 was amounted to RMB22,873,000 after deducting the income tax impact of RMB10,591,000.

3. **CHANGES IN THE GROUP'S ACCOUNTING POLICIES (continued)**

Classification and measurement

Except for certain receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

(i) Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and bills receivables, entrusted loan, prepayments, deposits and other receivables and amount due from related companies.

Other financial assets are classified and subsequently measured as follows:

(i) Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as available-for-sale (AFS) financial assets.

(ii) Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail to meet the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's quoted equity securities were classified as AFS financial assets. Upon transition, the AFS investment revaluation reserve relating to quoted equity securities, which had been previously recognised under other investment revaluation reserve, was reclassified to financial assets revaluation reserve.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then was applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES (continued)

Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and bills receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation did not have any impact on the Group's condensed consolidated financial statements.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments did not have any impact on the Group's condensed consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transactions with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transactions. Therefore, these amendments did not have any impact on the Group's condensed consolidated financial statements.

3. CHANGES IN THE GROUP'S ACCOUNTING POLICIES (continued)

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 *Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purposes. These amendments did not have any impact on the Group's condensed consolidated financial statements.

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 profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that finance income, gains on equity investments at fair value through profit or loss, 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, other investments, financial assets at fair value, deferred tax assets, equity investments at fair value through profit or loss, 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, tax payable, bonds payable, deferred tax liabilities and other unallocated liabilities as these liabilities are managed on a group basis.

	For the six-month period ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment revenue		
Sales to external customers	**34,706,115**	38,072,640
Segment results	**(301,875)**	352,937
Reconciliation		
Finance income	**171,438**	140,535
Gains on equity investments at fair value through profit or loss	**–**	130,730
Dividend income from listed investments	**5,168**	2,933
Unallocated income	**1,153**	2,243
Finance costs	**(369,342)**	(322,692)
Losses on financial assets at fair value through profit or loss	**(14,348)**	–
Share of losses of associates	**(62,498)**	(2,819)
Corporate and other unallocated expenses	**(62,868)**	(230,323)
(Loss)/profit before tax	**(633,172)**	73,544

4. OPERATING SEGMENT INFORMATION (continued)

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 (Audited) *RMB'000*
Segment assets	**40,145,568**	41,285,491
Reconciliation		
Corporate and other unallocated assets	**23,729,924**	21,938,528
Total assets	**63,875,492**	63,224,019
Segment liabilities	**28,477,606**	28,940,045
Reconciliation		
Corporate and other unallocated liabilities	**19,015,747**	16,757,748
Total liabilities	**47,493,353**	45,697,793

	For the six-month period ended 30 June	
	2018 (Unaudited) *RMB'000*	2017 (Unaudited) *RMB'000*
Other segment information		
Depreciation and amortisation	**438,258**	416,461
Capital expenditure*	**443,552**	565,083

* Capital expenditure consists of additions to property and equipment, investment properties, other intangible assets and prepaid land lease payments (if any).

5. BUSINESS COMBINATION

On 3 April 2018, the Group acquired 100% of the equity interests of 天津國美倉儲有限公司 (Tianjin GOME Warehouse Co. Ltd., or "Tianjin GOME Warehouse"), an unlisted company principally engaged in the business of warehouse leasing, at a cash consideration of RMB90 million.

Tianjin GOME Warehouse was ultimately controlled by Ms. Huang Xiu Hong, a close family member of Mr. Wong Kwong Yu ("Mr. Wong"), who is the controlling shareholder of the Group. Therefore, the Group accounted for this transaction as business combination by applying the acquisition method.

The carrying amounts of the assets and liabilities of Tianjin GOME Warehouse as at the date of acquisition were:

	Carrying amounts recognised on acquisition *RMB'000*
Current assets	153
Buildings	94,601
Land use rights	63,290
Total liabilities	(68,434)
Total identifiable net assets at carrying amount	89,610
Satisfied by:	
Cash	89,610

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

	RMB'000
Cash consideration	(89,610)
Cash and cash equivalents acquired	88
Net outflow of cash and cash equivalents	(89,522)

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

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

		For the six-month period ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***RMB'000***	*RMB'000*
Revenue			
Sale of electrical appliances and consumer electronic products		**34,706,115**	38,072,640
Other income			
Income from suppliers, net		**145,129**	233,460
Income from installation		**77,436**	80,329
Other service fee income		**185,080**	203,083
Other income from telecommunication service providers		**53,852**	59,909
Commission income from providing on-line platforms		**26,643**	44,467
Gross rental income		**132,615**	130,537
Government grants	*(i)*	**45,748**	77,674
Income from bank deposits and financial products		**7,734**	42,948
Dividend income from listed investments		**5,168**	2,933
Others		**43,423**	93,899
		722,828	969,239
Gains			
Gains on equity investments at fair value through profit or loss		**–**	130,730
Gains on disposal of other investments		**–**	3,788
Gains on disposal of financial assets at fair value		**761**	–
		761	134,518
		723,589	1,103,757

Note:

(i) Various local government grants were received in recognition of the Group's contributions to the local economy. There was no unfulfilled condition or contingency attaching to these government grants.

7. (LOSS)/PROFIT BEFORE TAX

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

		For the six-month period ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***RMB'000***	*RMB'000*
Cost of inventories sold		**29,420,251**	32,388,584
Depreciation		**397,974**	377,422
Amortisation of other intangible assets*		**22,945**	22,995
Amortisation of prepaid land lease payments		**17,339**	16,044
Losses on disposal of property and equipment		**9,095**	3,216
Losses on financial assets at fair value through profit or loss		**14,348**	–
Gains on equity investments at fair value through profit or loss	*6*	**–**	(130,730)
Minimum lease payments under operating leases		**2,212,838**	2,285,836
Gross rental income	*6*	**(132,615)**	(130,537)
Foreign exchange differences, net		**33,337**	186,141
Impairment provision for trade and bills receivables**		**21,393**	–
(Reversal of)/impairment provision for property and equipment**		**(15,348)**	3,526
Staff costs excluding directors' and chief executive's remuneration:			
Wages, salaries and bonuses		**1,350,076**	1,337,142
Pension scheme contributions***		**322,076**	323,172
Social welfare and other costs		**46,976**	48,670
Share award expense****		**(3,631)**	–
		1,715,497	1,708,984

Notes:

* The amortisation of other intangible assets for the period is included in "Administrative expenses" in the interim condensed consolidated statement of profit or loss.

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

*** At 30 June 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (31 December 2017: Nil).

**** During the year 2017, the Group granted share appreciation rights ("SARs") under the share award scheme to employees, executives and officers as part of their remuneration package, whereby the employees, executives and officers will become entitled to a future cash payment, based on the increase in the Company's share price from the exercisable price. The cost of SARs is measured initially at fair value at the grant date using the binomial tree model, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the 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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Finance costs:		
Interest expense on bank loans	**(54,455)**	(19,404)
Interest expense on bonds payable	**(316,089)**	(276,618)
Interest expense on borrowings from related parties	**(40,227)**	(24,950)
Interest expense on finance lease payable	**(1,200)**	(1,720)
Total interest expense on financial liabilities not at fair value through profit or loss	**(411,971)**	(322,692)
Less: Interest capitalised	**42,629**	–
	(369,342)	(322,692)
Finance income:		
Bank interest income	**171,438**	140,535

9. INCOME TAX EXPENSE

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current income tax - PRC	**211,143**	168,098
Deferred income tax	**(123,348)**	11,728
Total tax charge for the period	**87,795**	179,826

9. INCOME TAX EXPENSE (continued)

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

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

Under the relevant PRC income tax law, except for certain preferential treatments 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 2017: 25%) on their respective taxable income. During the current period, 62 entities (six-month period ended 30 June 2017: 48 entities) of the Group obtained approvals from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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

No provision for Hong Kong profits tax has been made for the six-month periods ended 30 June 2018 and 2017, as the Group had no assessable profits arising in Hong Kong for each of the periods.

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic (loss)/earnings per share is based on the profit or loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 21,012,608,000 in issue during the period (six-month period ended 30 June 2017: 21,569,756,000).

The calculation of diluted (loss)/earnings per share is based on the profit or loss for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted loss per share is the weighted average number of ordinary shares in issue during the period, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for the six-month period ended 30 June 2018 as the warrants were forfeited on 31 March 2018 and had no dilutive effect on the basic earnings per share amount presented.

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculations of basic and diluted (loss)/earnings per share are based on:

	For the six-month period ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted (loss)/earnings per share calculations	**(457,253)**	121,851

	Number of shares for the six-month period ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted (loss)/earnings per share calculations	**21,012,608**	21,569,756

11. FINANCIAL ASSETS AT FAIR VALUE

		30 June 2018
		(Unaudited)
	Notes	*RMB'000*
Financial assets at fair value through profit or loss		
Quoted equity shares		**3,436,858**
Total current		**3,436,858**
Financial assets at fair value through other comprehensive income		
Quoted equity shares:		
Investment in Gome Telecom	*(i)*	**462,655**
Investment in MTC	*(ii)*	**187,201**
Financial assets at fair value through profit or loss		
Unquoted equity investments	*(iii)*	**1,416,306**
Total non-current		**2,066,162**
Total		**5,503,020**

11. FINANCIAL ASSETS AT FAIR VALUE (continued)

Notes:

(i) During the first half of year 2018, the Group purchased 5,061,695 shares of 國美通訊設備股份有限公司 ("Gome Telecom Equipment Co., Ltd." or "Gome Telecom"), with a cash consideration of RMB54,025,000. The balance as at 30 June 2018 represented the fair value of the Group's investments in 45,049,095 shares, representing approximately 17.84% of the outstanding issued shares of Gome Telecom. Gome Telecom is a company established in the PRC and listed on the Shanghai Stock Exchange. Upon adoption of IFRS 9, the Group reclassified the investment from other investments to financial assets at fair value with gains or losses recognised as a separate component of equity.

Of the seven directors of Gome Telecom, two were nominated by the Group as at 30 June 2018 (31 December 2017: two). With reference to Gome Telecom's memorandum and articles of association and by taking into account the current shareholding structure of Gome Telecom, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Gome Telecom or appoint directors to Gome Telecom and thus the Group does not have control or significant influence over Gome Telecom.

As at 30 June 2018, the fair value of this investment was based on the quoted market price, which was RMB10.27 (31 December 2017: RMB11.90) per share. During the six-month period ended 30 June 2018, the loss in respect of this investment recognised in other comprehensive income amounted to RMB67,221,000 (six-month period ended 30 June 2017: loss of RMB96,370,000).

(ii) During 2016, the Group subscribed 30,193,814 shares of 深圳兆馳股份有限公司 ("Shenzhen MTC Co., Ltd." or "MTC") with a consideration of RMB370,780,000 representing approximately 1.67% of the issued shares. MTC is a company established in the PRC and listed on the Shenzhen Stock Exchange. Upon adoption of IFRS 9, the Group reclassified the investment from other investments to financial assets at fair value with gains or losses recognised as a separate component of equity.

On 8 June 2017, MTC declared and paid cash dividend of RMB0.25 for every 10 shares and a stock dividend of 15 shares for every 10 shares held by the shareholders. As at 30 June 2018, the Group held 75,484,535 shares, which represented 1.67% of the issued shares of MTC.

As at 30 June 2018, the fair value of this investment was based on the quoted market price, which was RMB2.48 (31 December 2017: RMB3.58) per share.

During the six-month period ended 30 June 2018, the loss in respect of this investment was recognised in other comprehensive income amounted to RMB83,033,000 (six-month period ended 30 June 2017: RMB68,992,000).

(iii) As at 30 June 2018, unquoted equity investments with a carrying amount of RMB1,416,306,000 (31 December 2017:RMB1,210,235,000) were stated at fair value through profit or loss.

12. 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 term offered to customers is generally one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. As at 30 June 2018, impairment losses amounted to RMB21,393,000 for long lifetime trade receivables is recognized according to forward-looking factors.

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

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Outstanding balances, aged:		
Within 3 months	**193,366**	140,556
3 to 6 months	**12,037**	45,358
Over 6 months	**21,393**	456
	226,796	186,370
Provision for impairment	**(21,393)**	–
	205,403	186,370

Movements in the provision for impairment losses are as follows:

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
At the beginning of the period/year	**–**	–
Provision for impairment losses	**21,393**	–
At the end of the period/year	**21,393**	–

13. TRADE AND BILLS PAYABLES

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 (Audited) *RMB'000*
Trade payables	**7,713,821**	8,040,453
Bills payable	**15,284,071**	14,798,440
	22,997,892	22,838,893

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 2018 (Unaudited) *RMB'000*	31 December 2017 (Audited) *RMB'000*
Within 3 months	**12,727,146**	12,208,312
3 to 6 months	**8,667,851**	8,939,643
Over 6 months	**1,602,895**	1,690,938
	22,997,892	22,838,893

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.

14. BONDS PAYABLE

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000 million, RMB300 million and RMB1,700 million on the Shanghai Stock Exchange, which are repayable on 7 January 2022, 28 January 2022 and 10 May 2022, respectively. These bonds could be redeemed by the holder and the earliest repayment dates are 7 January 2019, 28 January 2019 and 10 May 2019, respectively. The net proceeds after deducting transaction costs of RMB105,232,000 were RMB4,894,768,000. The interest is paid on an annual basis.

On 8 December 2016, the Group issued non-public bonds at a par value of RMB4,000 million, which is repayable on 8 December 2022. The bonds could be redeemed by the holder and the earliest repayment date is 8 December 2018. The net proceeds after deducting transaction cost of RMB60,000,000 was RMB3,940,000,000. The interest is paid on an annual basis.

On 10 March 2017 and 23 June 2017, the Group issued overseas bonds in aggregate principal amounts of US$400 million (equivalent to RMB2,777,143,000) and US$100 million with bonds premium of US$625,000 (equivalent to RMB686,735,000), respectively. These two sets of bonds form a single series which is listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The net proceeds after deducting transaction costs of RMB40,833,000 were RMB3,423,045,000. The interest is paid on a semi-annual basis.

14. BONDS PAYABLE (continued)

After initial recognition, these bonds are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest calculated based on the effective interest rate was RMB316,089,000, of which RMB277,198,000 was included in finance costs of the interim condensed consolidated statement of profit or loss and RMB38,891,000 was capitalised in construction in progress of the condensed consolidated statement of financial position.

The movements of bonds payable during the period are as follows:

	RMB'000
Carrying amount as at 1 January 2018	12,115,183
Interest reclassified to current portion in previous year	243,327
Interest during the period	316,089
Interest paid during the period	(290,156)
Exchange differences	44,039
	12,428,482
Less: Interest to be paid within one year	(253,328)
Current portion included in current liabilities	(8,888,130)
Included under non-current liabilities as at 30 June 2018	3,287,024

15. DIVIDENDS

Pursuant to the board of directors' resolution dated 28 August 2018, the board did not recommend the payment of an interim dividend so as to preserve capital for funding needs of the Group.

16. EVENTS AFTER THE REPORTING PERIOD

(i) On 24 July 2018, the Group proposed to subscribe 49% of the newly issued capital of 國美通訊（浙江）有限公司 ("Gome Telecom (Zhejiang) Co., Ltd.") with a consideration of RMB294 million.

(ii) On 16 August 2018, the Group proposed to acquire no more than 100,616,584 issued outstanding shares, which represents a 13.36% equity interest of Beijing Centergate Technologies (Holding) Co., Ltd from the open market at an offering price of RMB6.20 per share.

(iii) During August 2018, the Group purchased 5,430,370 shares of Gome Telecom with cash consideration of RMB54 million.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the six-month period ended 30 June 2018 (the "Reporting Period"), GOME Retail Holdings Limited (the "Company", with its subsidiaries, collectively known as the "Group" or "GOME") continued to implement the "Home • Living" strategy, accelerated its transformation into a one-stop home solution provider, and at the same time promoted an overall integration of its online to offline businesses by using the "Social + Business + Shared Benefits" model, in order to raise the management efficiency and enhance consumer experience.

During the Reporting Period, the Group's total gross merchandise volume ("GMV") for both online and offline operations increased by approximately 14.94% year-on-year, with approximately 67.39% growth in the GMV from the marketplace of the e-commerce business. As a result of the implementation of the strategic transformation plan, the Group recorded sales revenue of approximately RMB34,706 million, representing a decrease of 8.84% when compared with RMB38,073 million for the corresponding period last year. The Group's consolidated gross profit margin decreased slightly by 0.51 percentage point, from 17.83% for the corresponding period last year to approximately 17.32%. The operating expenses ratio rose from 17.15% during the corresponding period last year to approximately 18.39%, representing a slight increase of 1.24 percentage points over the period. In addition, the Group's total borrowings increased during the Reporting Period and the finance costs increased accordingly. Taking into account the above factors, the Group recorded a loss attributable to the owners of the parent of approximately RMB457 million, as compared to a profit of RMB122 million for the corresponding period last year.

In 2018, GOME proposed the "Triple New" initiative of "New Business, New Market, New Technology" to rapidly open county-level stores in the third- to sixth-tier cities, and introduced new service initiatives including "integration of kitchen cabinets and electrical appliances", "HVAC", "home furnishing/kitchen cabinet" and "kitchen interior design". Meanwhile, GOME uses its middle-end data platform to integrate its online and offline front-end businesses. The "Triple New" initiative proposed by GOME not only represents an operational shift of focus from products to users, but also demonstrates GOME's determination to attract customers with quality services.

FINANCIAL REVIEW

Revenue

During the Reporting Period, based on its "Home • Living" strategy, the Group is evolving into a one-stop home solution provider. Due to the implementation of the strategic transformation plan and the results of the various transformation measures have not yet been reflected in the financial statements, sales revenue of the Group decreased by 8.84% from RMB38,073 million for the corresponding period last year to approximately RMB34,706 million. The weighted average sales area of the Group's stores was approximately 5,174,000 sq.m. Revenue per sq.m. was approximately RMB6,708, decreased by 7.77% as compared with RMB7,273 for the corresponding period in 2017. During the Reporting Period, sales revenue from the 1,448 comparable stores was approximately RMB28,739 million, down 6.58% as compared with RMB30,764 million for the corresponding period in 2017.

Cost of sales and gross profit

During the Reporting Period, cost of sales for the Group was approximately RMB29,420 million, accounting for approximately 84.77% of the total sales revenue, as compared with 85.07% for the corresponding period in 2017. In line with the decrease in sales revenue, the Group's gross profit was approximately RMB5,286 million, down 7.0% as compared with RMB5,684 million for the corresponding period last year. Gross profit margin was approximately 15.23%, increased slightly by 0.3 percentage point as compared with 14.93% for the corresponding period last year.

Other income and gains

During the Reporting Period, the Group recorded other income and gains of approximately RMB724 million, representing a decrease of 34.42% as compared with RMB1,104 million for the corresponding period in 2017. Mainly due to the decrease in net income from suppliers, government grants and gains on equity investments at fair value through profit or loss during the Reporting Period.

Consolidated gross profit margin

During the Reporting Period, the gross profit margin remained stable while the other income and gains decreased. However, the Group's consolidated gross profit margin still maintained at a relatively high level of 17.32%, decreased slightly by 0.51 percentage point as compared with 17.83% for the corresponding period in 2017.

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 RMB6,382 million, decreased by 2.25% as compared with RMB6,529 million for the corresponding period last year. The operating expenses accounted for 18.39% of total sales revenue, up by 1.24 percentage points as compared with 17.15% for the corresponding period in 2017.

Selling and distribution expenses

During the Reporting Period, the Group's total selling and distribution expenses amounted to approximately RMB4,802 million, relatively stable as compared with RMB4,797 million for the corresponding period last year. The key items such as rental expenses were approximately RMB2,063 million, decreased as compared with RMB2,130 million for the corresponding period last year; staff costs were approximately RMB1,208 million, also decreased as compared with RMB1,216 million for the corresponding period last year. However, due to the decrease in sales revenue, the selling and distribution expenses as a percentage over sales revenue was 13.84%, increased by 1.24 percentage points as compared with 12.60% for the corresponding period in 2017.

Administrative expenses

During the Reporting Period, administrative expenses of the Group were approximately RMB1,167 million, increased slightly by 3.92% as compared with RMB1,123 million for the corresponding period last year. The proportion over sales revenue was 3.36%, up 0.41 percentage point as compared with 2.95% for the corresponding period in 2017, mainly due to the Group increased expenses on research and development to enhance the management function of the information system during the period. 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 foreign exchange loss, which decreased by 32.18% from RMB609 million for the corresponding period in 2017 to approximately RMB413 million. The decrease was mainly attributable to the substantial reduction in the foreign exchange loss incurred during the Reporting Period. The other expenses over revenue ratio was approximately 1.19%, down 0.41 percentage point as compared with 1.60% for the corresponding period in 2017.

(Loss)/profit before finance (costs)/income and tax

As the results of the decrease in sales revenue, there had been a decrease in the amount of gross profit, while the operating expenses remained stable during the Reporting Period. The Group incurred a loss before finance (costs)/income and tax of approximately RMB435 million, as compared with a profit of RMB256 million for the corresponding period in 2017.

Net finance (costs)/income

During the Reporting Period, the Group's net finance costs were approximately RMB198 million, as compared with RMB182 million in the first half of 2017. The increase in the finance costs was mainly due to the amount of interest-bearing bank loans increased from RMB3,784 million as at 30 June 2017 to approximately RMB5,321 million as at the end of the Reporting Period. As a result, the finance costs increased from RMB323 million for the corresponding period last year to approximately RMB369 million.

(Loss)/profit before tax

As a result of the above-mentioned factors, during the Reporting Period, the Group's loss before tax was approximately RMB633 million, as compared with a profit of RMB74 million for the corresponding period in 2017.

Income tax expense

During the Reporting Period, the Group's income tax expense decreased from RMB180 million for the corresponding period in 2017 to approximately RMB88 million, as a result of the decrease in profit. The management of the Company considers that the effective tax rate applied to the Group for the Reporting Period was reasonable.

(Loss)/profit for the period and (loss)/earnings per share attributable to owners of the parent

During the Reporting Period, the Group's loss attributable to owners of the parent was approximately RMB457 million, as compared with a profit of RMB122 million for the corresponding period last year.

During the Reporting Period, the Group's basic loss per share was RMB2.2 fen, as compared with earnings per share of RMB0.6 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 RMB9,512 million, representing an increase of 2.90% as compared with RMB9,244 million as at the end of 2017.

Inventories

As at the end of the Reporting Period, the Group's inventories amounted to approximately RMB10,120 million, down 10.08% as compared with RMB11,255 million as at the end of 2017. Inventory turnover days were approximately 66 days during the Reporting Period, relatively stable as compared with 67 days in the first half of 2017.

Prepayments, deposits and other receivables

As at the end of the Reporting Period, prepayments, deposits and other receivables of the Group amounted to approximately RMB4,945 million, down 2.14% from RMB5,053 million as at the end of 2017.

Trade and bills payables

As at the end of the Reporting Period, trade and bills payables of the Group amounted to approximately RMB22,998 million, relatively stable as compared with RMB22,839 million as at the end of 2017. Turnover days of trade and bills payables were approximately 141 days during the Reporting Period, increased by 6 days as compared with 135 days for the corresponding period in 2017.

Capital expenditure

During the Reporting Period, capital expenditure incurred by the Group amounted to approximately RMB444 million, representing a 21.42% decrease as compared with RMB565 million for the first half of 2017. The capital expenditure during the period was mainly used for the development of logistic centers, opening of new stores and remodelling of stores of the Group.

Cash flows

During the Reporting Period, the Group's net cash flows from operating activities amounted to approximately RMB706 million, as compared with cash used of RMB900 million for the corresponding period last year. The increase in cash flows was mainly due to the decrease in inventories and decrease in prepayments, deposits and other receivables as at the end of the Reporting Period.

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 RMB444 million, net cash flows used in investing activities amounted to approximately RMB572 million, as compared with RMB715 million for the first half of 2017.

During the Reporting Period, net cash flows from financing activities amounted to approximately RMB108 million, as compared with RMB2,796 million, as a result of issuance of overseas bonds in the first half of 2017.

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 RMB380 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, loans due to related companies and bonds.

As at 30 June 2018, the total borrowings of the Group were the interest-bearing bank loans, loans due to related companies, the corporate bonds and the overseas bonds.

The current interest-bearing bank loans comprised:

(1) bank loans of approximately RMB490 million in aggregate, bearing interest at floating and fixed rates;

(2) a bank loan of approximately JPY50 million (equivalent to approximately RMB3 million) bearing interest at a fixed rate;

(3) a bank loan of approximately EUR259 million (equivalent to approximately RMB1,995 million) bearing interest at floating rate; and

(4) a bank loan of approximately US$244 million (equivalent to approximately RMB1,614 million), bearing interest at floating rate.

The above interest-bearing bank loans were repayable within 1 year.

The non-current interest-bearing bank loan comprised:

(1) a bank loan of approximately RMB158 million, bearing interest at floating rate and it was repayable beyond 5 years;

(2) a bank loan of approximately RMB1,000 million, bearing interest at a fixed rate and it was repayable within 2 years; and

(3) a bank loan of approximately RMB61 million, bearing interest at floating rate and it was repayable beyond 5 years.

The loans due to related companies comprised:

Loans amounted to approximately RMB1,672 million in aggregate, bearing interest at fixed rates and repayable within 3 years.

The corporate bonds comprised:

(1) corporate bonds issued in 2016 with an aggregate nominal value of RMB5,000 million issued at fixed coupon rates ranged from 4.00% to 4.50% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rates and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the third year; and

(2) corporate bonds issued in 2016 with an aggregate nominal value of RMB4,000 million issued at a fixed coupon rate of 5.67% 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 Group's financing activities continued to be supported by its bankers.

As at 30 June 2018, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounted to approximately RMB19,168 million over total equity amounted to approximately RMB16,382 million, increased from 96.45% as at 31 December 2017 to 117.01%.

Charge on group assets

As at 30 June 2018, the Group's bills payable and interest-bearing bank loans were secured by certain of the Group's time deposits amounted to approximately RMB8,263 million, certain land use rights with a carrying value of approximately RMB1,122 million, certain owner-occupied properties and investment properties with a carrying value of approximately RMB1,648 million. The Group's bills payable and interest-bearing bank loans amounted to approximately RMB20,605 million in total.

TALENT AND EXPERTISE

During the Reporting Period, the training center of the Group focused on shaping employees' core competence to achieve the business strategies and improving their professional skills.

Following the three strategic targets of online and offline integration, pilot business incubation and creation of new store showcases, the Group implemented three training programs respectively: "The China Pilot Project", "Senior Executives Succession Plan" phase 3 and the "Future Program". Such programs helped the Group to train internal talents to understand, execute and achieve business strategies. Moreover, during the Reporting Period, the training center of the Group completed the modification of training systems and standardized workflows, upgrading of the E-learning platform and restructuring of the internal trainer team. All these efforts provided strong support to the execution of business strategies of the Group.

As at 30 June 2018, the Group had a total of 41,840 employees.

OUTLOOK AND PROSPECTS

During the Reporting Period, GOME continued to refine its "Home • Living" strategy to drive its "Triple New" strategic initiatives of "New Business, New Markets, New Technology". Such strategic initiatives made significant progress during the Reporting Period and established GOME to become a one-stop home solution provider. In the third- to sixth-tier cities, the Group will continue to open county-level stores at a quicker pace and will use its middle-end data platform to merge online and offline in the front-end aspects of its businesses. GOME's "Triple New" initiatives is not only a change in the strategical focus but a reason for consumers to continue to choose GOME.

The "Home•Living" Strategy Provides New Growth Opportunities

For the development of the "New Business", GOME is combining its electrical appliances, home decoration, household systems and supermarkets to create sizable experiential stores. The Group is also optimizing its platform to include the Xiaomei Net Café, VR Cinemas and GOME e-sports, while expanding its business coverage to the "integration of kitchen cabinets and electrical appliances", "HVAC", "home furnishing/kitchen cabinet" and "kitchen interior design".

Store Network Penetration Driving Business in New Markets

Apart from the continuous development of sizable experiential stores in the first- and second-tier cities, the Group is also accelerating its opening of county-level stores in third- to sixth-tier cities in order to capture business opportunities in these new markets. Other significant developments include the "ME Shop," a new business initiative, which allows users to participate in the growth of the Group through the "Social + Business + Shared Benefits" model. The model allows social media interaction to become a point of sales, which brings in a multiplier effect, making it a strong growth factor for GOME.

New Technology Stimulates Online Retail System Evolution

By using big data analytics to discover user needs, GOME keeps up with market trends and launches differentiated products, virally popular products and uniquely creative products to meet even the most niche demands and enrich its product SKU both online and offline and thus increasing inventory turnover. Artificial intelligence, big data, and cloud computing or "New Technology" paves the way for the creation of a visually rich online customer service platform that let users provide feedback at the user-end. Through the "ME Shop" platform, users can select and share products while receiving discounts, reflecting the successful union of social media and retail.

Being the First Choice of Customers through GOME Services

As a "Home•Living" service provider, GOME continues to optimize and refine its own logistics system to further improve its service capabilities. In addition to speeding up the construction of owned warehouses to expand its logistic network coverage, the Group has been promoting the core logistic ability of "Installation with Delivery" in full-scale, evolving itself to become a "Home • Living" solution provider, going beyond the home appliance retailer. Retail service is not just after-sales service but a full range of services covering pre-sales, sales, and after-sales. Through reinvigorating the customer service experience, GOME will prove itself worthy of the customer's loyalty and trust.

INTERIM DIVIDEND AND DIVIDEND POLICY

The Board does not recommend the payment of an interim dividend 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, availability of investment and acquisition opportunities.

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

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 2018.

CORPORATE GOVERNANCE

The Company is committed to upholding good corporate governance practices. For the six-month period ended 30 June 2018, 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 on the Stock Exchange (the "Listing Rules").

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 2018 as reviewed by Ernst & Young, the external auditors.

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 2018 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, 29 August 2018

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*