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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 2020

FINANCIAL HIGHLIGHTS

	First half of 2020 RMBm	First half of 2019 RMBm
Revenue	19,075	34,333
Consolidated gross profit [#]	2,222	6,151
Consolidated gross profit margin	11.65%	17.92%
(Loss)/profit before finance (costs)/income and tax	(2,005)	366
Loss attributable to owners of the parent	(2,623)	(380)
Loss per share – Basic and diluted	(RMB13.1 fen)	(RMB1.9 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 2020 together with the comparative figures for the corresponding period in 2019 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six-month period ended 30 June 2020

	Notes	For the six-month period ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
REVENUE	5	19,075,037	34,333,291
Cost of sales	6	(17,362,417)	(29,336,702)
Gross profit		1,712,620	4,996,589
Other income and gains	5	509,012	1,154,396
Selling and distribution expenses		(3,035,719)	(4,025,944)
Administrative expenses		(899,649)	(1,161,228)
Other expenses		(284,589)	(552,832)
Share of losses of associates		(6,717)	(45,396)
(Loss)/profit before finance (costs)/income and tax		(2,005,042)	365,585
Finance costs	7	(1,002,664)	(1,121,272)
Finance income	7	293,083	209,284
LOSS BEFORE TAX	6	(2,714,623)	(546,403)
Income tax expense	8	(41,224)	(74,598)
LOSS FOR THE PERIOD		(2,755,847)	(621,001)
Attributable to:			
Owners of the parent		(2,622,506)	(380,489)
Non-controlling interests		(133,341)	(240,512)
		(2,755,847)	(621,001)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		(RMB13.1 fen)	(RMB1.9 fen)
Diluted		(RMB13.1 fen)	(RMB1.9 fen)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six-month period ended 30 June 2020

	For the six-month period ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
LOSS FOR THE PERIOD	<u>(2,755,847)</u>	<u>(621,001)</u>
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(170,634)</u>	<u>730</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(170,634)</u>	<u>730</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	<u>126,813</u>	<u>66,436</u>
Net other comprehensive income that will not to be reclassified to profit or loss in subsequent periods	<u>126,813</u>	<u>66,436</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(43,821)</u>	<u>67,166</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(2,799,668)</u>	<u>(553,835)</u>
Attributable to:		
Owners of the parent	<u>(2,666,327)</u>	<u>(313,323)</u>
Non-controlling interests	<u>(133,341)</u>	<u>(240,512)</u>
	<u>(2,799,668)</u>	<u>(553,835)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 (Unaudited) <i>RMB'000</i>	31 December 2019 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property and equipment		6,750,518	6,733,209
Property under development		543,191	522,973
Investment properties		2,197,614	2,137,929
Right-of-use assets		11,353,059	13,356,979
Goodwill		11,987,128	11,987,128
Other intangible assets		299,881	334,413
Investments in associates		169,921	176,638
Investment in a joint venture		3,781	3,781
Equity investments designated at fair value through other comprehensive income		768,715	854,052
Financial assets at fair value through profit or loss		1,614,908	1,490,596
Loans to investees		560,000	560,000
Deferred tax assets		3,651	7,211
Prepayments, other receivables and other assets		345,825	363,931
		36,598,192	38,528,840
CURRENT ASSETS			
Inventories		6,623,534	7,688,114
Trade receivables	<i>11</i>	825,424	240,872
Prepayments, other receivables and other assets		2,890,544	3,207,558
Loans to investees		150,000	150,000
Due from related companies		385,697	244,576
Financial assets at fair value through profit or loss		754,169	589,648
Restricted cash		13,800,212	13,035,858
Cash and cash equivalents		11,436,762	8,186,507
		36,866,342	33,343,133
Total current assets			

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

As at 30 June 2020

		30 June	31 December
		2020	2019
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
CURRENT LIABILITIES			
Trade and bills payables	12	21,986,569	20,119,408
Other payables and accruals		3,465,242	3,565,659
Due to related companies		107,766	174,268
Lease liabilities		4,367,450	3,123,314
Interest-bearing bank and other borrowings	13	17,885,874	18,445,025
Tax payable		990,752	984,630
		<hr/>	<hr/>
Total current liabilities		48,803,653	46,412,304
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(11,937,311)	(13,069,171)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		24,660,881	25,459,669
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		6,131,280	8,414,297
Interest-bearing bank and other borrowings	13	11,966,133	8,406,987
Derivative financial instruments	14	676,070	–
Deferred tax liabilities		511,190	477,333
		<hr/>	<hr/>
Total non-current liabilities		19,284,673	17,298,617
		<hr/>	<hr/>
Net assets		5,376,208	8,161,052
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		518,322	518,322
Reserves		8,430,099	11,081,602
		<hr/>	<hr/>
		8,948,421	11,599,924
		<hr/>	<hr/>
Non-controlling interests		(3,572,213)	(3,438,872)
		<hr/>	<hr/>
Total equity		5,376,208	8,161,052
		<hr/> <hr/>	<hr/> <hr/>

NOTES

1. CORPORATE AND GROUP 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 interim condensed consolidated financial information for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of RMB11,937,311,000 as at the end of the reporting period. In preparing this interim condensed consolidated 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 condensed consolidated financial information on a going concern basis is appropriate.

The interim condensed consolidated financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2019.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and impact of the new and revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's retail stores have been reduced or waived by the lessors as a result of the Covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the Covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB175,012,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated 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. Accordingly, no segment information by profit, assets and liabilities is presented.

Geographical information

All (2019: all) revenue of the Group was derived from customers in Mainland China and over 95% (2019: 95%) of the Group's non-current assets, other than financial instruments and deferred tax assets, were situated in Mainland China.

Information about major customers

During the six months ended 30 June 2020, there was no revenue derived from a single customer which accounted for 10% or more of the Group's revenue (2019: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

	For the six-month period ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue from contracts with customers	19,075,037	34,333,291
Other income and gains:		
Income from installation	56,384	97,894
Income on extended warranty service	63,629	139,898
Compensation and penalty income	1,464	6,570
Other income from telecommunication service providers	7,944	50,540
Commission income from providing on-line platforms	11,496	31,490
Gross rental income	36,035	119,209
Government grants*	81,984	106,007
Income from bank deposits and financial products	8,061	7,041
Gains on lease modification	27,360	45,674
Gains on subleases of right-of-use assets	31,104	–
Income on the net investment in finance leases	6,501	–
Fair value gains on investment properties	9,582	–
Fair value gains on financial assets at fair value through profit or loss, net	123,283	528,253
Foreign exchange gains, net	1,576	–
Others	42,609	21,820
	509,012	1,154,396

Note:

- * Various local government grants were received to reward the Group's contributions to the local economy. There was no unfulfilled conditions or contingency attaching to these government grants.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

Disaggregated revenue information for revenue from contracts with customers

	For the six-month period ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Type of goods or services		
Sale of electrical appliances and consumer electronic products – offline	18,842,166	32,739,360
Sale of electrical appliances and consumer electronic products – online	232,871	1,593,931
	<u>19,075,037</u>	<u>34,333,291</u>
Geographical market		
Mainland China	19,075,037	34,333,291
	<u>19,075,037</u>	<u>34,333,291</u>
Timing of revenue recognition		
Goods transferred at a point in time	19,075,037	34,333,291
	<u>19,075,037</u>	<u>34,333,291</u>

6. LOSS BEFORE TAX

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

	Notes	For the six-month period ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Cost of inventories sold		17,249,784	29,336,702
Provision against inventories		112,633	–
		<u>17,362,417</u>	<u>29,336,702</u>
Depreciation of property and equipment		326,061	404,137
Depreciation of right-of-use assets		1,487,286	1,454,443
Amortisation of other intangible assets		34,532	33,766
Impairment losses on property and equipment*		–	21,964
Losses of closing stores*#		65,075	105,631
Compensation and penalty*		24,114	10,117
Loss on disposal of property and equipment*		1,844	8,621
Fair value (gains)/losses, net:			
Financial assets at fair value through profit or loss	5	(123,283)	(528,253)
Fair value loss on derivative financial instruments*	14	168,778	–
Fair value gain on investment properties	5	(9,582)	–
Gross rental income	5	(36,035)	(119,209)
Foreign exchange differences, net		(1,576)	7,708
Impairment losses on financial assets*		17,360	8,557
		<u>17,362,417</u>	<u>29,336,702</u>

Note:

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

Written off certain leasehold improvements of RMB63,621,000 were included in this item.

9. DIVIDENDS

Pursuant to the board of directors' resolution dated 31 August 2020, the board did not recommend the payment of an interim dividend for the six-month period ended 30 June 2020 so as to preserve capital for funding needs of the Group.

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

The calculation of the basic loss per share is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 20,066,871,000 (six-month period ended 30 June 2019: 20,066,084,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six-month period ended 30 June 2020 and 2019 in respect of a dilution as the impact of convertible bonds outstanding and share award granted had an anti-dilutive effect on the basic loss per share amounts presented.

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

	For the six-month period ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	(2,622,506)	(380,489)
	Number of shares	
	2020	2019
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	20,066,871	20,066,084

11. TRADE RECEIVABLES

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

	30 June 2020	31 December 2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 3 months	792,197	220,673
3 to 6 months	23,795	16,759
Over 6 months	9,432	3,440
	825,424	240,872

12. TRADE AND BILLS PAYABLES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade payables	6,215,637	5,169,596
Bills payables	15,770,932	14,949,812
	<u>21,986,569</u>	<u>20,119,408</u>

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	14,433,034	9,018,095
3 to 6 months	4,886,702	8,928,531
Over 6 months	2,666,833	2,172,782
	<u>21,986,569</u>	<u>20,119,408</u>

Certain of the Group's bills payables are secured by:

- (i) the pledge of certain of the Group's time deposits and related interest receivables;
- (ii) mortgages over the Group's buildings; and
- (iii) mortgages over 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.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020		31 December 2019	
	Maturity	(Unaudited) RMB'000	Maturity	(Audited) RMB'000
Current				
Bank loans – secured	2020-2021	15,301,202	2020	13,337,038
Bank loans – unsecured	2020-2021	2,288,842	2020	1,489,983
Other loans – secured	2020-2021	295,830	2020	296,496
Bonds payable – unsecured	–	–	2020	3,321,508
		<u>17,885,874</u>		<u>18,445,025</u>
Non-current				
Bank loans – secured	2022-2034	4,276,030	2022-2034	2,655,230
Other loans – secured	2021-2024	142,969	2021-2024	120,045
Bonds payable – unsecured	2022-2026	7,547,134	2022-2025	5,631,712
		<u>11,966,133</u>		<u>8,406,987</u>
Analysed into:				
Bank loans repayable:				
Within one year		17,590,044		14,827,021
In the second year		–		–
In the third to fifth years, inclusive		2,395,877		1,062,026
Beyond five years		<u>1,880,153</u>		<u>1,593,204</u>
		<u>21,866,074</u>		<u>17,482,251</u>
Other borrowings repayable:				
Within one year		295,830		3,618,004
In the second year		4,220,713		39,396
In the third to fifth years, inclusive		2,387,698		5,213,847
Beyond five years		<u>1,081,692</u>		<u>498,514</u>
		<u>7,985,933</u>		<u>9,369,761</u>

13. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

- i) Certain of the Group's bank and other borrowings are secured by:
 - (a) certain of the Group's buildings situated in Mainland China which had an aggregate net carrying amount at the end of the reporting period of approximately RMB694,825,000 (2019: RMB1,128,372,000);
 - (b) certain of the Group's right-of-use assets in Mainland China which had an aggregate net carrying amount at the end of the reporting period of approximately RMB1,170,765,000 (2019: RMB1,175,438,000);
 - (c) certain of the Group's investment properties situated in Mainland China which had an aggregate fair value at the end of the reporting period of approximately RMB1,267,446,000 (2019: RMB1,365,419,000);
 - (d) certain of the Group's property under development situated in Mainland China which had an aggregate net carrying amount at the end of the reporting period of approximately RMB543,191,000 (2019: RMB522,973,000);
 - (e) the Group's aircraft with a net carrying amount at the end of the reporting period of approximately RMB120,618,000 (2019: RMB137,862,000);
 - (f) certain of the Group's time deposits amounting to RMB7,748,130,000 (2019: RMB7,392,319,000) and related interest receivables amounting to RMB198,519,000 (2019: RMB288,023,000);
 - (g) certain of the Group's financial assets at fair value through profit or loss with an aggregate fair value of approximately RMB610,976,000 (2019: RMB566,748,000); and
 - (h) certain of the Group's financial assets at fair value through other comprehensive income with an aggregate fair value of approximately RMB186,825,000 (2019: Nil).
- ii) Except for the bank loans listed below, all the Group's bank and other borrowings are denominated in RMB.
 - (a) a bank loan of USD244,000,000 (equivalent to RMB1,727,330,000);
 - (b) bank loans of EUR286,850,000 (equivalent to RMB2,284,010,000); and
 - (c) bonds payable with a carrying amount of USD228,737,051 (equivalent to RMB1,619,344,000).

14. CONVERTIBLE BONDS

On 17 April 2020, the Company, as issuer, and Hongkong Walnut Street Limited ("Pinduoduo"), a company with limited liability incorporated under the laws of Hong Kong and a wholly-owned subsidiary of Pinduoduo Inc., as subscriber, entered into a subscription agreement (the "Pinduoduo Subscription Agreement") in relation to the subscription of the convertible bonds at the subscription price equal to 100% of the principal amount of the convertible bonds, being US\$200 million. The initial conversion price is HK\$1.215 per share. Assuming that the conversion rights have been exercised in full, 1,283,950,617 new shares of the Company will be allotted and issued. The issuance was completed on 28 April 2020.

On 28 May 2020, the Company, as issuer, and JD.com International limited (“JD”), a limited liability company established in Hong Kong and a wholly-owned subsidiary of JD.com, Inc., as subscriber, entered into subscription agreement (the “JD Subscription Agreement”) in relation to the subscription of the convertible bonds at the subscription price equal to 100% of the principal amount of the convertible bonds, being US\$100 million. The initial conversion price is HK\$1.255 per share. Assuming that the conversion rights have been exercised in full, 621,513,944 new shares of the Company will be allotted and issued. The issuance was completed on 30 June 2020.

The convertible bonds issued under the Pinduoduo Subscription Agreement and the JD Subscription Agreement (collectively the “CBs”) bear interest from (and including) the issuance date at the rate of 5% per annum payable annually. The CBs initially have a maturity date falling on the third anniversary of the issue date, which may be extended for another 2 years at the option of bondholders of the CBs under certain conditions.

Upon the occurrence of certain issuer redemption events, the Company has the option to redeem in whole (but not in part) the CBs then outstanding. Upon the occurrence of certain bondholder redemption events, the bondholders have the option to redeem in whole, or in part, the CBs then outstanding.

At the issuance date, the liability components, and above-mentioned conversion options, extension options and redemption options (collectively the “embedded derivatives”) of the CBs were measured at fair value. The liability components are presented as long term interest-bearing borrowings (note 13) on the amortised cost basis until extinguished on conversion or redemption. The embedded derivatives are separated from liability components, presented as derivative financial instruments at fair value.

15. EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events taking place subsequent to 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the six-month period ended 30 June 2020 (the “Reporting Period”), with a consistent focus on the “Home • Living” strategy and based on the models of “integrated home solution, service solution and supply chain provider” and local retail, GOME Retail Holdings Limited (the “Company”, with its subsidiaries, collectively known as the “Group” or “GOME”) developed high-frequency, dual platforms with online and offline interaction for multi scenarios. Faced with the challenges from the coronavirus pandemic (the “COVID-19”), the Group fully leveraged on its resources and capabilities throughout its operation covering the supply chain, communities, logistics and services delivery to create live broadcast sales model. The Group initiated the live broadcast sales model with the features of “informative contents + premium IP + scenarios”, bringing high quality and low price products and services to consumers across the country.

During the Reporting Period, benefitting from the contribution from the vigorous expansion of the communities and the GOME APP in digitalized local retail, the gross merchandise volume (“GMV”) from the Group’s community + GOME APP grew by approximately 70% as compared with the corresponding period last year. While the number of the Group’s communities grew over 40% year-on-year to over 200,000, reaching over 66 million users, representing a 65% increase year-on-year. Leveraging on the comprehensive upgrade of the “Store” channel on the GOME APP, the sales conversion rate rose over 150% year-on-year. In addition, through the successful introduction of JD and Pinduoduo in April and May as our strategic partners, the Group’s GMV generated from these e-commerce platforms grew more than 100 times year-on-year. The Group maintained sufficient capital after the full repayment of overseas bonds with an aggregate principal amount of US\$466 million during the Reporting Period. As of 30 June 2020, the Group’s cash and cash equivalents were approximately RMB11,437 million.

During the Reporting Period, the outbreak of the COVID-19 caused disruption to many industries in China, especially to the home appliance retail industry. In the first half of the year, both total retail sales of consumer goods and home appliances in the domestic market dropped significantly compared to the corresponding period last year. The sales revenue of the Group for the first half of 2020 was approximately RMB19,075 million, declined by approximately 44.44% as compared to RMB34,333 million for the corresponding period last year (of which, sales revenue for the first quarter decreased by approximately 61.48% year-on-year due to severe outbreak of the COVID-19. However, a rapid rebound was achieved through live broadcasts and other initiatives, with the decrease in sales revenue for the second quarter narrowing down to approximately 26.32% compared with the corresponding period last year). In the first half of 2020, leveraging on our SKU selecting capabilities and our professional community staff, the Group held many live broadcast sales events with various themes featuring professional quality scenarios. Through these events, the Group reached over 100 million cumulative views. In four of the super live broadcast sales events, the Group’s sales revenue totaled approximately RMB2,500 million. Due to the sales of bulk home appliances being seriously affected by the pandemic, the consolidated gross profit margin of overall business was approximately 11.65% during the Reporting Period. However, with the gradual alleviation of the pandemic and the stimulating policies, the consolidated gross profit margin began to improve significantly in the second quarter.

In addition, due to a reduction in rentals, salaries and other selling and distribution expenses, the operating expenses of the Group significantly decreased from RMB5,740 million in the corresponding period last year by approximately 26.48% to approximately RMB4,220 million. Taking into account the above factors, the Group's loss attributable to owners of the parent during the Reporting Period was approximately RMB2,623 million, compared with a loss of RMB380 million for the corresponding period last year.

Currently, the Group has successfully completed its infrastructure construction integrating its online and offline operations and optimizing the store network. The business models such as "store services", "home services" and "online services" are becoming increasingly mature. In the future, the Group will further deepen and upgrade the "Home • Living" strategy and expand the platform with extensive commodity and service mix on the top of our solid home appliances retail foundation. Together with excellent offline experience and rapid online order process, we strive to become a leading digital local community retailer.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the outbreak of the COVID-19 caused disruption to many industries in China, especially to the home appliance retail industry. In the first half of the year, both total retail sales of consumer goods and home appliances in the domestic market dropped significantly compared to the corresponding period last year. The sales revenue of the Group was approximately RMB19,075 million during the Reporting Period, declined by approximately 44.44% as compared to RMB34,333 million in the corresponding period last year (of which, sales revenue for the first quarter decreased by approximately 61.48% year-on-year due to severe outbreak of the COVID-19. However, a rapid rebound was achieved through live broadcasts and other initiatives, with the decrease in sales revenue for the second quarter narrowing down to approximately 26.32% compared with the corresponding period last year).

During the Reporting Period, sales revenue from the 1,360 comparable stores was approximately RMB16,201 million, down 38.58% as compared with RMB26,376 million for the corresponding period in 2019. In addition, the proportion of revenue from county-level stores has increased from 5.49% in the same period last year to 8.23% 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 from 5.20% in the same period last year to 7.02% of total revenue.

Cost of Sales and Gross Profit

During the Reporting Period, cost of sales for the Group was approximately RMB17,362 million, accounting for approximately 91.02% of the total sales revenue, as compared with 85.45% for the corresponding period in 2019. The Group's gross profit was approximately RMB1,713 million, as compared with RMB4,997 million for the corresponding period last year. Gross profit margin was approximately 8.98%, decreased by 5.57 percentage points as compared with 14.55% for the corresponding period last year. The main reason for the decrease in gross profit margin was that during the pandemic period, the sales of products with lower gross profit margins such as telecommunication, computers and digital products accounted for a relatively larger proportion. The proportion of sales of these categories increased from 27.34% in the same period last year to 41.56% in the Reporting Period. The proportion of sales for bulk home appliances with higher gross profit margin decreased.

Other Income and Gains

During the Reporting Period, the Group recorded other income and gains of approximately RMB509 million, representing a decrease of approximately 55.89% as compared with RMB1,154 million for the corresponding period in 2019, mainly due to the gains on financial asset at fair value through profit and loss decreased from RMB528 million in the same period last year to approximately RMB123 million.

Consolidated Gross Profit Margin

Due to the sales of bulk home appliances being seriously affected by the pandemic, the consolidated gross profit margin for the business was approximately 11.65% during the Reporting Period as compared with 17.92% in the corresponding period last year. However, with the gradual alleviation of the pandemic and the stimulating policies, the consolidated gross profit margin began to improve significantly in the second quarter.

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 RMB4,220 million, decreased by 26.48% as compared with RMB5,740 million for the corresponding period last year, mainly because the Group having adopted various measures to reduce various expenses during the pandemic period. The Group expects that the operating expenses will be maintained at a relatively low level.

During the Reporting Period, the Group's operating expenses ratio was 22.12%, increased by 5.40 percentage points as compared with 16.72% for the corresponding period in 2019.

Selling and Distribution Expenses

During the Reporting Period, the Group's total selling and distribution expenses amounted to approximately RMB3,036 million, reduced by 24.59% as compared with RMB4,026 million for the corresponding period last year.

The decrease in selling and distribution expenses was mainly due to the fact that the Group adopted various measures to reduce expenses during the pandemic period. Salaries decreased from RMB1,129 million in the same period last year to approximately RMB775 million; rental decreased from RMB332 million in the same period last year to approximately RMB12 million; advertising expenses decreased from RMB237 million in the same period last year to approximately RMB132 million. A total of approximately RMB779 million was reduced during the Reporting Period from the above items.

The selling and distribution expenses as a percentage over sales revenue was 15.91%, increased by 4.18 percentage points as compared with 11.73% for the corresponding period in 2019.

Administrative Expenses

During the Reporting Period, administrative expenses of the Group were approximately RMB900 million, decreased by 22.48% as compared with RMB1,161 million for the corresponding period last year. Among which, salaries decreased from RMB654 million for the same period last year to approximately RMB499 million, depreciation expenses reduced from RMB272 million in the same period last year to approximately RMB206 million. The proportion over sales revenue was 4.72%, increased by 1.34 percentage points as compared with 3.38% for the corresponding period in 2019. 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, the other expenses of the Group mainly comprised fair value loss on derivative financial instruments incurred from the convertible bonds amounted to approximately RMB169 million, the losses of closing stores amounted to approximately RMB65 million and others amounted to approximately RMB51 million. The total amount of other expenses was approximately RMB285 million, decreased by 48.46% from RMB553 million for the same period last year. This was mainly due to the reclassification of other tax expenses and payment processing charges to revenue and selling and distribution expenses accounts during the Reporting Period. The other tax expenses and payment processing charges were RMB59 million and RMB233 million, respectively, for the same period last year. The other expenses ratio was approximately 1.49%, down 0.12 percentage point as compared with 1.61% for the corresponding period in 2019.

Supplemental information for 2019

For the year ended 31 December 2019, other expenses of the Group mainly comprised, other tax expenses amounted to approximately RMB135 million, payment processing charges amounted to approximately RMB364 million, losses on closed stores amounted to approximately RMB135 million, impairment losses of property and equipment amounted to approximately RMB210 million, net foreign exchange differences amounted to approximately RMB102 million and others amounted to approximately RMB192 million, among which, impairment losses of property and equipment was mainly for the assets of some of the under-performing stores.

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

During the Reporting Period, mainly affected by the COVID-19 pandemic, sales revenue and consolidated gross profit decreased, though the operating expenses were reduced significantly. The Group recorded a loss before finance (costs)/income and tax of approximately RMB2,005 million, as compared with a profit of RMB366 million for the corresponding period in 2019.

Net Finance (Costs)/Income

During the Reporting Period, the Group's net finance costs (finance income less finance costs) were approximately RMB710 million, as compared with RMB912 million in the first half of 2019. The decrease in the net finance costs was mainly due to, among others, the interest on the bonds payable decreased from RMB385 million in the corresponding period last year to approximately RMB258 million.

Loss before Tax

As a result of the above-mentioned factors, the Group's loss before tax was approximately RMB2,715 million during the Reporting Period, as compared with a loss of RMB546 million for the corresponding period in 2019.

Income Tax Expense

During the Reporting Period, the Group's income tax expense decreased from RMB75 million for the corresponding period in 2019 to approximately RMB41 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 RMB2,623 million as compared with a loss of RMB380 million for the corresponding period last year.

During the Reporting Period, the Group's basic loss per share was approximately RMB13.1 fen, as compared with loss per share of RMB1.9 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 RMB11,437 million, increased by 39.70% as compared with RMB8,187 million as at the end of 2019.

Inventories

As at the end of the Reporting Period, the Group's inventories amounted to approximately RMB6,624 million, down 13.84% as compared with RMB7,688 million as at the end of 2019. Mainly due to the decrease in sales revenue and cost of sales during the Reporting Period, inventory turnover days increased by 21 days from 54 days in the first half of 2019 to approximately 75 days.

Prepayments, Other Receivables and Other Assets (current)

As at the end of the Reporting Period, prepayments, other receivables and other assets of the Group amounted to approximately RMB2,891 million, down 9.88% from RMB3,208 million as at the end of 2019.

Trade and Bills Payables

As at the end of the Reporting Period, trade and bills payables of the Group amounted to approximately RMB21,987 million, up 9.28% as compared with RMB20,119 million as at the end of 2019. Mainly due to the decrease in sales revenue and cost of sales during the Reporting Period, turnover days of trade and bills payables increased by 81 days from 140 days for the corresponding period in 2019 to approximately 221 days.

Capital Expenditure

During the Reporting Period, capital expenditure incurred by the Group amounted to approximately RMB387 million, representing a 48.05% decrease as compared with RMB745 million for the first half of 2019. The capital expenditure during the period was mainly for the development of logistic centers and upgrading the information system of the Group.

Cash Flows

During the Reporting Period, mainly due to the decrease in inventories and increase in trade and bills payables, the Group's net cash flows generated from operating activities was approximately RMB1,994 million, as compared with cash flows of RMB193 million for the corresponding period last year.

Mainly due to, among others, the inclusion of proceeds paid for the purchase of property and equipment with regard to the development of logistic centers amounted to approximately RMB354 million, net cash flows used in investing activities amounted to approximately RMB329 million, as compared with RMB387 million for the first half of 2019.

During the Reporting Period, net cash flows generated from financing activities amounted to approximately RMB1,676 million, as compared with RMB153 million in the first half of 2019. The increase in net cash flows from financing activities was mainly due to, among others, the Group increased its interest-bearing bank and other loans and issued convertible bonds during the Reporting Period.

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 RMB928 million.

Foreign Currencies and Treasury Policy

The majority of the Group's income and its expenses and cash and cash equivalents 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 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 by cash on hand, cash generated from operations, interest-bearing bank and other loans and bonds.

As at 30 June 2020, the total borrowings of the Group were comprised of interest-bearing bank loans, other loans, corporate bonds and convertible bonds.

The current interest-bearing bank and other loans comprised:

	Fixed rate <i>RMB'000</i>	Floating rate <i>RMB'000</i>	Total <i>RMB'000</i>
Denominated in US\$	–	1,727,330	1,727,330
Denominated in RMB	15,459,507	699,037	16,158,544
	<u>15,459,507</u>	<u>2,426,367</u>	<u>17,885,874</u>

The above loans were repayable within 1 year.

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

	Fixed rate <i>RMB'000</i>	Floating rate <i>RMB'000</i>	Total <i>RMB'000</i>
Denominated in EUR			
Repayable in the third to fifth years, inclusive	–	2,284,010	2,284,010
Denominated in RMB			
Repayable in the third to fifth years, inclusive	142,969	111,867	254,836
Repayable beyond five years	–	1,880,153	1,880,153
	<u>142,969</u>	<u>4,276,030</u>	<u>4,418,999</u>

The corporate bonds comprised:

- (1) corporate bonds issued in 2016, renewed and resale in 2019 and 2020 with an aggregate nominal value of RMB4,542 million issued at fixed coupon rate of 7.6% per annum with remaining term of 2 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;
- (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; and
- (4) corporate bonds issued in 2020 with an aggregate nominal value of RMB200 million issued at a fixed coupon rate of 7.00% 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 third year.

Convertible bonds comprised:

- (1) 5% convertible bonds due 2023 (with an option to extend to 2025) in the aggregate principal amount of US\$200 million issued in April 2020.
- (2) 5% convertible bonds due 2023 (with an option to extend to 2025) in the aggregate principal amount of US\$100 million issued in June 2020.

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

As at 30 June 2020, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounted to approximately RMB29,852 million over total equity amounted to approximately RMB5,376 million, increased from 329.03% as at 31 December 2019 to 555.28%. The debt ratio was 40.63% as compared with 37.36% as at 31 December 2019, which was expressed as a percentage of total borrowings over total assets amounting to approximately RMB73,465 million.

Charge on Group Assets

As at 30 June 2020, the Group's bills payables and interest-bearing bank and other loans were secured by the Group's time deposits amounted to approximately RMB13,792 million and related interest receivables amounted to approximately RMB224 million, certain property and equipment, property under development and investment properties of the Group with a carrying value of approximately RMB4,359 million, the Group's financial assets with a carrying amount of approximately RMB798 million and right-of-use-assets with carrying amount of approximately RMB1,171 million. The Group's bills payables and interest-bearing bank and other loans amounted to approximately RMB45,623 million in total.

HUMAN RESOURCES

During the Reporting Period, the Group carried out strategic training for its personnel focusing on three aspects, namely provision of strategic support, regular and continuous practices and pursuit of excellence, to fully align with its strategic transformation.

As for strategic support, the Group placed an emphasis on the launch of “ME E-Learning” (美E學), a mobile learning platform, to empower its employees of different levels with knowledge and promote various transformation projects. In addition, through cooperation with China Chain Store & Franchise Association (CCFA), external institutions for higher education, training institutions and other platforms, the Group continued to carry out the “Reservoir” projects across China to maintain its talent pool. In line with its strategic transformation and enhancement, the human resources centre and various departments of the Group jointly set up a talent training mechanism in an effort to meet the strategic goals of the Group and at the same time facilitate the development of employees.

There have been no material changes to the Group's remuneration policy during the Reporting Period. As at 30 June 2020, the Group had a total of 29,047 employees.

OUTLOOK AND PROSPECTS

Optimized Continuously the Store Network and Accelerated the Deployment of “New Model” for Localized Retail

In the first half of 2020, the Group has proliferated simultaneously a wide spectrum of functions for offline stores thus enabling them to handle online business flow with the support of “One Store One Webpage” system. This approach has turned these stores from pure physical space into a diversified consumption environment which offers live streaming, experience showroom and upfront warehousing. This helped to create an online and offline integration from “ground to internet” with “community + experience + services” features and built up each of these store as the crux of “three kilometer living zone”. In the second half of this year, the Group is well positioned to speed up the deployment of store network layout in lower-tier cities. At the same time, the Group plans to accelerate its deep penetration into the consumer living circles in lower-tier cities through multi-dimensional cooperation with Pinduoduo and achieve extensive channel penetration.

Introduced Two Strategic Partners to Enjoy Mutual Benefits Through Collaboration

The Group entered into strategic cooperation agreements with Pinduoduo and JD in the first half of the year. In August 2020, GOME and JD have strengthened their cooperation by signing up the joint procurement with an aggregate amount of RMB30 billion. This was ranked the largest year to date procurement in the home appliance and consumer electronic industry in China. At the same time, GOME has been connected to JD's Kepler system, thus offering access to more than 20,000 non-home appliance SKUs. This line-up is expected to facilitate the sales of GOME's full range of products.

Entered Into the Second Strategic Phase of Open Sharing and Constructed GOME's own Integrated Online and Offline Retail Ecosystem

In the first half of this year, the Group's business was impacted by the COVID-19 outbreak. However, the Group withstood this stress test and successfully achieved the goal of the first phase of strategic development. Going forward, the Group will ride on its 33 years of industry experience and break new grounds in a bid to construct an integrated online and offline retail ecosystem featuring "Social Interaction + Commerce + Sharing".

"Dual platforms" to provide best performance-to-price products and high-quality services

Capitalizing on the foundation of its current home appliance business, the Group plans to increase the business volume mainly through platforms, servicing external enterprises and the whole society. By offering digitalized artificial intelligence management tools to enterprises, the Group will help them to enhance their operational capabilities both online and offline at various levels with the most cost effective and highest efficiency solutions. This would provide users the best performance-to-price products and high-quality services through the platforms, thereby bringing win-win situations for all parties.

Opening of Supply Chain to Construct Diversified Vertical Supply Chain System

The Group plans to share with the third parties its supply chain edges. This would be achieved by opening its supply chain system to the strategic partners and franchises in lower tier markets. Leveraging the expansion drive of supply chain cooperation between the Group and strategic partners with same open-minded approach, this would enable all parties to consolidate their resources and create more business opportunities through multiple channel sales, thus generating win-win situations for all parties.

INTERIM DIVIDEND AND DIVIDEND POLICY

The Board did not recommend the payment of an interim dividend for the six-month period ended 30 June 2020 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

During January 2020, the Company made on-market repurchases of the overseas bonds in the aggregate principal amount of US\$10,000,000. In March 2020, the Company has fully repaid the outstanding principal amount of the overseas bonds of US\$466,000,000 and its related interest of US\$11,650,000, totaling US\$477,650,000.

In April 2020, the Group renewed and resale the corporate bonds issued in 2016 in the PRC, the renewed and resale principal amount was RMB86.5 million with 7.6% coupon rate per annum and remaining term of 2 years.

In April 2020, the Company issued 5% convertible bonds due 2023 (with an option to extend to 2025) in the aggregate principal amount of US\$200 million.

In June 2020, the Company issued 5% convertible bonds due 2023 (with an option to extend to 2025) in the aggregate principal amount of US\$100 million.

In June 2020, the Group issued domestic bonds with an aggregate principal amount of RMB200 million at coupon rate of 7.00% per annum in the PRC. Such domestic bonds have a term of 6 years. The Group will be entitled to adjust the coupon rate and the investors will be entitled to sell back the domestic bonds to the Group at the end of the third 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 2020.

CORPORATE GOVERNANCE

The Company is committed to upholding good corporate governance practices. For the six-month period ended 30 June 2020, 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 2020 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 2020 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, 31 August 2020

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*