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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 2022 AND CHANGE OF ADDRESS OF BERMUDA REGISTERED OFFICE

FINANCIAL HIGHLIGHTS

	First half of 2022 RMBm	First half of 2021 RMBm
Revenue	12,109	26,040
Consolidated gross profit [#]	2,399	3,711
Consolidated gross profit margin	19.81%	14.25%
Loss before finance (costs)/income and tax	(2,465)	(1,265)
Loss attributable to owners of the parent	(2,966)	(1,974)
Loss per share		
– Basic and diluted	(RMB9.0 fen)	(RMB9.1 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 months ended 30 June 2022 together with the comparative figures for the corresponding period in 2021 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	Notes	For the six months ended 30 June	
		2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
REVENUE	5	12,109,334	26,039,905
Cost of sales	6	(10,021,813)	(22,908,053)
Gross profit		2,087,521	3,131,852
Other income and gains	5	311,762	579,522
Selling and distribution expenses		(2,444,451)	(3,713,780)
Administrative expenses		(1,745,922)	(1,061,110)
(Impairment losses) reversal of impairment losses on financial assets		(13,679)	21,488
Other expenses		(648,449)	(219,078)
Share of losses of associates		(12,045)	(3,775)
Loss before finance (costs) income and tax		(2,465,263)	(1,264,881)
Finance costs	7	(876,157)	(1,013,908)
Finance income	7	44,180	259,427
LOSS BEFORE TAX	6	(3,297,240)	(2,019,362)
Income tax credit (expense)	8	26,272	(49,475)
LOSS FOR THE PERIOD		(3,270,968)	(2,068,837)
Attributable to:			
Owners of the parent		(2,965,788)	(1,974,042)
Non-controlling interests		(305,180)	(94,795)
		(3,270,968)	(2,068,837)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		(RMB9.0fen)	(RMB9.1fen)
Diluted		(RMB9.0fen)	(RMB9.1fen)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
LOSS FOR THE PERIOD	<u>(3,270,968)</u>	<u>(2,068,837)</u>
OTHER COMPREHENSIVE INCOME (EXPENSE)		
Other comprehensive income (expense) that may be reclassified to profit or expense in subsequent periods:		
Exchange differences on translation of foreign operations	<u>942,970</u>	<u>(2,493)</u>
Other comprehensive income (expense) that may be reclassified to profit or expense in subsequent periods	<u>942,970</u>	<u>(2,493)</u>
Other comprehensive income (expense) that will not be reclassified to profit or expense in subsequent periods:		
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	<u>283,001</u>	<u>(24,777)</u>
Gains on assets revaluation for change in use from owner-occupied properties to investment properties, net of tax	<u>–</u>	<u>588</u>
Net other comprehensive income (expense) that will not to be reclassified to profit or expense in subsequent periods	<u>283,001</u>	<u>(24,189)</u>
OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE PERIOD, NET OF TAX	<u>1,225,971</u>	<u>(26,682)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	<u>(2,044,997)</u>	<u>(2,095,519)</u>
Attributable to:		
Owners of the parent	<u>(1,739,817)</u>	<u>(2,000,724)</u>
Non-controlling interests	<u>(305,180)</u>	<u>(94,795)</u>
	<u>(2,044,997)</u>	<u>(2,095,519)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
<i>Note</i>	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property and equipment	6,733,899	6,715,459
Investment properties	4,174,930	4,081,961
Right-of-use assets	23,890,024	24,880,236
Goodwill	10,117,885	10,117,885
Other intangible assets	182,364	205,219
Investments in associates	625,489	629,892
Investment in a joint venture	3,781	3,781
Financial assets at fair value through other comprehensive income	762,394	393,628
Financial assets at fair value through profit or loss	2,332,604	2,447,831
Deferred tax assets	13,066	13,098
Prepayments, other receivables and other assets	583,359	633,150
	<hr/>	<hr/>
Total non-current assets	49,419,795	50,122,140
CURRENT ASSETS		
Inventories	2,645,501	6,351,971
Property under development	665,988	640,609
Trade receivables	1,115,628	1,437,103
Prepayments, other receivables and other assets	3,657,797	3,228,681
Due from related companies	761,398	153,630
Financial assets at fair value through profit or loss	491,511	941,976
Pledged bank deposits and restricted cash	13,303,906	13,668,326
Cash and cash equivalents	2,409,336	4,378,423
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Total current assets	25,051,065	30,800,719

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2022

		30 June 2022 (Unaudited) <i>RMB'000</i>	31 December 2021 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bills payables	12	14,436,708	18,891,459
Other payables and accruals		5,923,297	5,952,574
Due to related companies		694,568	312,045
Lease liabilities		3,212,061	3,897,862
Interest-bearing bank and other borrowings	13	24,775,010	22,060,980
Tax payable		1,026,630	1,034,878
		50,068,274	52,149,798
Total current liabilities		50,068,274	52,149,798
NET CURRENT LIABILITIES		(25,017,209)	(21,349,079)
TOTAL ASSETS LESS CURRENT LIABILITIES		24,402,586	28,773,061
NON-CURRENT LIABILITIES			
Lease liabilities		4,375,742	4,322,886
Interest-bearing bank and other borrowings	13	3,280,623	6,139,252
Derivative financial instruments	14	181,636	130,685
Deferred tax liabilities		661,527	595,356
		8,499,528	11,188,179
Total non-current liabilities		8,499,528	11,188,179
Net assets		15,903,058	17,584,882
EQUITY			
Equity attributable to owners of the parent			
Issued capital		772,338	772,338
Treasury shares		(444,985)	(935,431)
Reserves		19,900,486	21,767,576
		20,227,839	21,604,483
Non-controlling interests		(4,324,781)	(4,019,601)
Total equity		15,903,058	17,584,882

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 Cumberland House 7th Floor, 1 Victoria Street, Hamilton HM11, Bermuda and principal place of office is Suite 2915, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The principal activities of the Group are the operations and management of retail stores for electrical appliances, consumer electronic products and general merchandise, as well as a full category of online sales network in the People’s Republic of China (the “PRC”) through self-operated and platform models.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Group had net current liabilities of RMB25,017,209,000 as at 30 June 2022 and incurred a loss of RMB3,270,968,000 for the six months ended 30 June 2022. As at the date of this interim result, the Group has certain overdue loans due to financial institutions and there is uncertainty on the sustainability of the operation of the Group in the foreseeable future. In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity of the Group, operating status and its available sources of financing. The Group has considered a number of plans and measures to mitigate the financial difficulties and liquidity issues including:

- (i) In respect of the loans with financial institutions, the Group is striving for the negotiation with the relevant banks for the renewal and extension of bank borrowings;
- (ii) The Group will focus on the retail business of electric appliances and electronic products and divest, dispose or suspend the non-core and non-profitable business. In addition, the Group will optimise the national network of retail shops through the closure of shops with low operating efficiency, opening the sizeable retails shops and expanding the franchise shops;
- (iii) The Group will further optimise the capital and debt financing structure and strive for the support from the financial institutions and other strategic business partners, expand the source of financing of the Company, arrange a right mix of short and long-term debts, reduce the reliance on the short-term debts and lower the cost of financing; and
- (iv) The Group is actively identifying alternative sources of funding. Subsequent to the period end, the Group has successfully raise fund of HK\$776,460,000 by placement of shares of the Company as detailed in note 15.

Other than abovementioned, the Group will consider to realise its financial assets and properties, if necessary, to repay the matured debts.

In light of the above plans and measures, the Group anticipates that it can generate sufficient net cash inflows in the coming twelve months to maintain its operation. Therefore, the directors of the Company believe that it would be appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

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 2021.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") which are effective for the Group's financial year beginning 1 January 2022:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendment to IFRSs	Annual Improvements to IFRSs 2018 – 2020 cycle

The application of the amendments to IFRSs in the current interim period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these 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 retail stores of electrical appliances, consumer electronic products and general merchandise, as well as full category of on-line sales network in the Mainland China through self-operated and platform models. 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 (2021: all) revenue of the Group was derived from customers in Mainland China and over 95% (2021: 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 2022, there was no revenue derived from a single customer which accounted for 10% or more of the Group's revenue (2021: nil).

5. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of electrical appliances and consumer electronic products	11,999,851	26,039,905
Product display services	109,483	–
	<u>12,109,334</u>	<u>26,039,905</u>
Other income		
Income from installation	11,043	95,407
Income on extended warranty service	39,635	72,608
Income on the net investment in finance leases	–	7,776
Gross rental income from investment property operating leases	51,767	67,004
Government grants*	33,757	52,249
Commission income from telecommunication service providers	192	15,522
Commission income from providing online platforms	2,435	4,970
Income from compensation	6,549	4,525
Others	30,492	27,656
	<u>175,870</u>	<u>347,717</u>
Gains		
Gains on subleasing of right-of-use assets	–	9,478
Gains on lease modification	37,209	7,633
Gains on disposal of right-of-use assets	35,607	–
Foreign exchange gains, net	63,076	128,900
Fair value gains on investment properties	–	69,622
Fair value gains on financial assets at fair value through profit or loss, net	–	16,172
	<u>135,892</u>	<u>231,805</u>
	<u>311,762</u>	<u>579,522</u>

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Type of goods or services		
Sale of electrical appliances and consumer electronic products	11,999,851	26,039,905
Product display services	109,483	–
	<u>12,109,334</u>	<u>26,039,905</u>
Geographical market		
Mainland China	<u>12,109,334</u>	<u>26,039,905</u>
Timing of revenue recognition		
Goods transferred at a point in time	11,999,851	26,039,905
Service recognised over time	109,483	–
	<u>12,109,334</u>	<u>26,039,905</u>

6. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Cost of inventories sold	9,555,698	22,961,937
Provision against (reversal of provision against) inventories	466,115	(53,884)
Cost of sales	<u>10,021,813</u>	<u>22,908,053</u>
Depreciation of property and equipment	266,355	351,125
Depreciation of right-of-use assets	1,283,016	1,093,081
Amortisation of other intangible assets	22,855	34,056
Losses on disposal of property and equipment*	12,156	1,610
Fair value losses (gains), net:		
Financial assets at fair value through profit or loss*	313,835	(16,172)
Derivative financial instruments embedded in the convertible bonds issued*	43,495	141,292
Fair value losses (gains) on investment properties*	9,649	(69,622)
Foreign exchange differences, net	(63,076)	(128,900)
Impairment losses on goodwill*	–	71,602
Impairment losses (reversal of impairment losses) on financial assets*	13,679	(21,488)

Note:

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

7. FINANCE (COSTS) INCOME

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
Interest on bonds payable	(160,943)	(214,350)
Interest on bank borrowings	(545,066)	(605,444)
Interest on lease liabilities	(226,789)	(280,983)
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Total interest expense on financial liabilities not at fair value through profit or loss	(932,798)	(1,100,777)
Less: Interest capitalised	56,641	86,869
	<hr/>	<hr/>
	(876,157)	(1,013,908)
	<hr/> <hr/>	<hr/> <hr/>
	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
Bank interest income	44,180	256,374
Interest income from loans to third parties	–	3,053
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	44,180	259,427
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8. INCOME TAX (CREDIT) EXPENSE

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, except for certain preferential treatments available to the Group, the tax rate of the PRC subsidiaries is 25% (2021: 25%) on their respective taxable income. During the year, certain subsidiaries of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Current – charge for the period	–	30,616
Over-provision in respect of prior years	(381)	–
Deferred	(25,891)	18,859
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Total tax (credit) charge for the period	(26,272)	49,475
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9. DIVIDENDS

Pursuant to the board of directors' resolution dated 31 August 2022, the board did not recommend the payment of an interim dividend for the six month ended 30 June 2022 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 33,060,519,000 (six months ended 30 June 2021: 21,636,633,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2022 and 2021 in respect of a dilution as the impact of convertible bonds outstanding and share awards 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 months ended 30 June	
	2022	2021
	(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	(2,965,788)	(1,974,042)
	Number of shares	
	2022	2021
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	33,060,519	21,636,633

11. TRADE RECEIVABLES

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Trade receivables	1,151,031	1,483,636
Impairment	(35,403)	(46,533)
	1,115,628	1,437,103

11. TRADE RECEIVABLES (continued)

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 3 months	944,934	1,316,952
3 to 6 months	147,902	87,706
Over 6 months	22,792	32,445
	<u>1,115,628</u>	<u>1,437,103</u>

12. TRADE AND BILLS PAYABLES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade payables	6,051,371	7,078,816
Bills payables	8,385,337	11,812,643
	<u>14,436,708</u>	<u>18,891,459</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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 3 months	6,875,788	11,964,630
3 to 6 months	6,892,120	6,264,925
Over 6 months	668,800	661,904
	<u>14,436,708</u>	<u>18,891,459</u>

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

- (i) Certain of the Group's time deposits and related interest receivables;
- (ii) the Group's buildings; and
- (iii) the Group's investment properties situated in Mainland China.

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 2022			31 December 2021		
	Effective interest rate (%)	Maturity	(Unaudited) RMB'000	Effective interest rate (%)	Maturity	(Audited) RMB'000
Current						
Bank loans – secured	0.05-6.09	2023	20,956,930	0.05-6.09	2022	17,107,031
Bank loans – unsecured	3.52-8.00	2023	1,834,385	2.00-7.00	2022	2,325,394
Other loans – secured	6.09-8.35	2023	110,690	6.09-8.35	2022	135,142
Bonds payable – unsecured	7.44-7.87	2023	1,873,005	7.44-7.87	2022	2,493,413
			<u>24,775,010</u>			<u>22,060,980</u>
Non-current						
Bank loans – secured	4.35-5.50	2023-2034	2,976,516	4.90-5.50	2023-2034	4,083,983
Bank loans – unsecured	3.70-5.50	2023-2034	59,400			–
Other loans – secured	6.09	2023-2024	30,067	6.09	2023-2024	48,898
Bonds payable – unsecured	4.79-8.03	2023-2026	214,640	4.79-8.03	2023-2026	2,006,371
			<u>3,280,623</u>			<u>6,139,252</u>
			30 June 2022 RMB'000 (Unaudited)			31 December 2021 RMB'000 (Audited)
Analysed into:						
Bank loans repayable:						
Within one year			22,791,315			19,432,425
In the second year			613,846			1,861,316
In the third to fifth years, inclusive			1,226,540			1,175,840
Beyond five years			1,195,530			1,046,827
			<u>25,827,231</u>			<u>23,516,408</u>
Other borrowings repayable:						
Within one year			1,983,695			2,628,555
In the second year			130,157			1,731,409
In the third to fifth years, inclusive			114,550			124,852
Beyond five years			–			199,008
			<u>2,228,402</u>			<u>4,683,824</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;
 - (b) certain of the Group's aircraft;
 - (c) certain of the Group's investment properties situated in Mainland China;
 - (d) certain of the Group's property under development situated in Mainland China;
 - (e) certain of the Group's right-of-use assets situated in Mainland China;
 - (f) certain of the Group's time deposits and related interest receivables; and
 - (g) certain of the Group's investments in associates.
- (ii) Except for the bank loans and bonds payable denominated in EUR and USD with carrying amounts of RMB2,480,322,000 (31 December 2021: RMB2,546,946,000) and RMB1,868,174,000 (31 December 2021: RMB1,691,845,000) respectively, all the Group's bank and other borrowings are denominated in RMB at the end of the reporting period.
- (iii) During the six months ended 30 June 2022, the Group has early redeemed certain corporate bonds of RMB2,579,503,000 (31 December 2021: RMB2,546,390,000). During the six months ended 30 June 2022, the Group has renewed nil (31 December 2021: RMB953,610,000).

14. CONVERTIBLE BONDS

On 17 April 2020, the Company, as issuer, and Hong Kong 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 9 March 2021, as a result of the placing of existing and the subscription of new shares of the Company and pursuant to the terms of Pinduoduo Subscription Agreement, the conversion price changed to HK\$1.20 per share and the maximum number of shares that may be issued upon conversion of the convertible bonds is 1,300,000,000 shares.

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 a 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. On 9 March 2021, as a result of the placing of existing and the subscription of new shares of the Company and pursuant to the terms of JD Subscription Agreement, the conversion price changed to HK\$1.24 per share and the maximum number of shares that may be issued upon conversion of the convertible bonds is 629,032,258 shares.

14. CONVERTIBLE BONDS (continued)

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 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 interest-bearing borrowings 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. As at 30 June 2022, the fair value of the derivative embedded was RMB181,636,000 (31 December 2021: RMB130,685,000).

For further details of the convertible bonds, please refer to the related announcements of the Company on 19 April 2020, 28 April 2020, 28 May 2020, 30 June 2020 and 29 April 2021.

15. EVENTS AFTER THE REPORTING PERIOD

The Company has completed a placing of existing shares and subscription of new shares. Details of which are disclosed in announcement dated 6 July 2022.

The Company granted share options under the share option scheme adopted by the Company on 12 September 2018 to certain eligible participants which, subject to the acceptance by the grantees, will enable the grantees to subscribe for a total of 978,950,000 ordinary shares of HK\$0.025 each in the share capital of the Company representing approximately 2.74% of the issued share capital of the Company. Details of such options granted are disclosed in announcement dated 14 July 2022.

The Company entered into an agreement to acquire the entire equity interests in Eagle Delight Properties (Overseas) Limited (“Eagle Delight”) from GOME Property Holdings Limited. The principal assets of the Eagle Delight are the properties named GOME Commercial Capital and No. 9 Xiangjiang. Certain information in relation to the transaction is disclosed in the Company’s announcement dated 19 August 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the six months ended 30 June 2022 (the “Reporting Period”), with a consistent focus on the second phase of “Home • Living” strategy and based on the development philosophy from the platform perspective, users’ perspective and technology perspective, having fully considered the economic and social functions of retailing, the Group created a “full retail ecosystem sharing platform” by establishing and integrating its six business platforms, namely “online platform, offline platform, supply chain platform, logistics platform, big data & cloud platform and sharing and joint development platform”, with an aim to lower retail cost, enhance efficiency and raise value of the retail business. The Group further promoted the grid-based model of “Home Living and Home Services” and strived to meet the all-round consumption and service needs of family users by implementing the core business strategies of entertainment-oriented marketing, low price, quality service and technology, so that all users can enjoy better products and services at lower prices.

During the Reporting Period, major tier-1 cities were materially affected by the recurring outbreaks of the pandemic in China. Offline business was significantly disrupted by various lockdown and control measures at most regions, and online business was also hit hard since the outbreak of the pandemic as a result of the disruption to the logistics service. Nevertheless, as a leading retail enterprise, the Group has always shouldered its social responsibilities and carried out grid-based business management through its online platform of “FUN (真快樂)” APP and offline network of approximately 4,000 GOME outlets. Internally, the Group strived to protect over 50,000 employees in 776 cities and towns by implementing effective prevention and control measures. Meanwhile, the Group was committed to securing stable supply and prices at all outlets and online platforms during the pandemic. The Group took the initiatives to maintain adequate supply and boost consumption during the pandemic by offering healthcare products and daily necessities at normal prices and deploying sufficient supplies to regions severely affected.

In the first half of 2022, sales revenue of the Group was approximately RMB12,109 million, as compared with RMB26,040 million for the corresponding period last year. The consolidated gross profit margin was approximately 19.81%, increased by 5.56 percentage points as compared to 14.25% for the corresponding period last year. The Group’s operating expenses were approximately RMB4,839 million, decreased by 3.10% as compared with RMB4,994 million for the corresponding period last year. The finance costs were approximately RMB876 million, decreased by 13.61% as compared with RMB1,014 million for the corresponding period last year. Taking into account the above factors, the Group’s loss attributable to owners of the parent during the Reporting Period was approximately RMB2,966 million, as compared with a loss of RMB1,974 million for the corresponding period last year.

In the first half of 2022, the Group entered into strategic cooperation with Huawei and Tencent, respectively. The cooperation with Huawei focused on the digital enhancements of retail business. Both parties leveraged on their strengths to jointly explored a business model integrating the digital economy and real economy and develop a digital operation system with focus on consumption experience by making use of big data. The strategic cooperation between the Group and Tencent covered big data & cloud, internet technologies, advertising and marketing and smart outlets. By consolidating the resources and strengths of both parties, GOME's retail ecosystem platform was fully linked with Tencent's digital ecosystem, which has rapidly enhanced and replenished the big data resources, cloud computing capability and omni-channel connection efficiency of GOME's retail ecosystem platform. The number of users and business value of GOME's "Home • Living" services increased significantly. The cooperation with Huawei and Tencent will expedite the digital and intelligent transformation of approximately 4,000 stores of the Group in China, enabling the Group to achieve low-cost traffic and precise marketing.

FINANCIAL REVIEW

Revenue

During the Reporting Period, major tier-1 cities were materially affected by the recurring outbreaks of the pandemic in China. Offline business was significantly disrupted by various lockdown and control measures at most regions, and online business was also hit hard since the outbreak of the pandemic as a result of the disruptions to the logistics service. Sales revenue was approximately RMB12,109 million during the Reporting Period, decreased by 53.50% as compared with RMB26,040 million for the corresponding period last year.

During the Reporting Period, the proportion of revenue from county-level stores was 9.47% of total revenue, as compared with 12.88% for the corresponding period last year, while the revenue from new businesses (including integration of kitchen cabinets with electrical appliances, home decoration and home furnishing, etc.) increased from 7.85% for the corresponding period last year to 8.70% of total revenue.

Cost of Sales and Gross Profit

During the Reporting Period, cost of sales for the Group was approximately RMB10,022 million, accounting for approximately 82.76% of the total sales revenue, as compared with 87.97% for the corresponding period in 2021. The Group's gross profit was approximately RMB2,088 million, decreased by 33.33% as compared with RMB3,132 million for the corresponding period last year. Gross profit margin was approximately 17.24%, increased by 5.21 percentage points as compared with 12.03% for the corresponding period last year. The increase in gross profit margin was mainly due to the separation of exhibition and sales after the strategic transformation, the new offline display experience charging model optimised the revenue structure, and prominently reflect the cost advantage of the electrical appliance supply chain simultaneously.

Other Income and Gains

During the Reporting Period, the Group recorded other income and gains of approximately RMB312 million, representing a decrease of approximately 46.21% as compared with RMB580 million for the corresponding period in 2021, mainly due to, among others, the decrease in income from installation caused by some bulky household appliances could not be delivered and installed resulted by cordon off of residential communities and the decrease in other service income during the Reporting Period.

Consolidated Gross Profit Margin

Due to the gross profit margin of higher-margin bulk home appliances increased, the consolidated gross profit margin for the Group increased by 5.56 percentage points from 14.25% in the corresponding period last year to approximately 19.81% during the Reporting Period.

Operating Expenses

During the Reporting Period, the Group's total operating expenses (comprised of selling and distribution expenses, administrative expenses and other expenses) decreased by 3.10% from RMB4,994 million for the corresponding period last year to approximately RMB4,839 million. During the Reporting Period, the Group's operating expenses ratio was 39.96%, as compared with 19.18% for the corresponding period in 2021 due to the decrease in total revenue.

Selling and Distribution Expenses

During the Reporting Period, the Group's total selling and distribution expenses amounted to approximately RMB2,444 million, decreased by 34.19% as compared with RMB3,714 million for the corresponding period last year.

The decrease in selling and distribution expenses was mainly due to rental expenses decreased from RMB291 million for the corresponding period last year to approximately RMB180 million; advertising and promotion expenses decreased from RMB483 million for the corresponding period last year to approximately RMB54 million; depreciation decreased from RMB1,268 million for the corresponding period last year to approximately RMB993 million; delivery expenses decreased from RMB333 million for the corresponding period last year to approximately RMB183 million; payment processing expense decreased from RMB195 million for the corresponding period last year to approximately RMB76 million. A total decrease of approximately RMB1,084 million was recorded during the Reporting Period from the above items.

The selling and distribution expenses as a percentage over sales revenue was 20.18%, increased by 5.92 percentage points as compared with 14.26% for the corresponding period in 2021.

Administrative Expenses

During the Reporting Period, administrative expenses of the Group were approximately RMB1,746 million, increased by 64.56% as compared with RMB1,061 million for the corresponding period last year. Among which, salaries increased from RMB597 million for the corresponding period last year to approximately RMB967 million; depreciation increased from RMB176 million for the corresponding period last year to approximately RMB549 million. The proportion over sales revenue was 14.42%, increased by 10.35 percentage point as compared with 4.07% for the corresponding period in 2021.

Other Expenses

During the Reporting Period, the other expenses of the Group mainly comprised fair value loss on derivative financial liabilities embedded in the convertible bonds of approximately RMB43 million, losses on financial asset at fair value through profit and loss amounted to approximately RMB314 million, losses on written off of prepayment amounted to approximately RMB220 million, impairment losses on disposal of property and equipment amounted to approximately RMB12 million, compensation expense amounted to approximately RMB3 million and other items amounted to approximately RMB56 million. The total amount of other expenses was approximately RMB648 million, increased by 195.89% as compared with RMB219 million for the corresponding period last year. The other expenses ratio was approximately 5.36%, up 4.51 percentage point as compared with 0.85% for the corresponding period in 2021.

Loss before Finance (Costs)/Income and Tax

During the Reporting Period, mainly affected by the increase in sales revenue and consolidated gross profit, the Group's loss before finance (costs)/income and tax was approximately RMB2,465 million, as compared with a loss of RMB1,265 million for the corresponding period in 2021.

Net Finance (Costs)/Income

During the Reporting Period, the Group's net finance costs (finance income less finance costs) were approximately RMB832 million, as compared with RMB754 million in the first half of 2021.

Loss before Tax

As a result of the above-mentioned factors, the Group's loss before tax was approximately RMB3,297 million during the Reporting Period, increased by 63.30% as compared with a loss of RMB2,019 million for the corresponding period in 2021.

Income Tax Expense

During the Reporting Period, the Group's tax credit amounted to approximately RMB26 million, as compared with RMB49 million income tax expense for the corresponding period in 2021. 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 RMB2,966 million, increased by 50.25% as compared with RMB1,974 million for the corresponding period last year.

During the Reporting Period, the Group's basic loss per share was approximately RMB9.0 fen, as compared with basic loss per share of RMB9.1 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 RMB2,409 million, as compared with RMB4,378 million as at the end of 2021. The decrease in the cash and cash equivalents position was mainly due to the Group having repaid its borrowings during the Reporting Period.

Inventories

As at the end of the Reporting Period, the Group's inventories amounted to approximately RMB2,646 million, down 58.34% as compared with RMB6,352 million as at the end of 2021. Mainly due to the decrease in sales revenue and cost of sales during the Reporting Period, inventory turnover days increased by 17 days from 64 days in the first half of 2021 to approximately 81 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 RMB3,658 million, up 13.29% from RMB3,229 million as at the end of 2021. The increase was mainly due to the increase in deposits and other receivables during the Reporting Period.

Trade and Bills Payables

As at the end of the Reporting Period, trade and bills payables of the Group amounted to approximately RMB14,437 million, down 23.58% as compared with RMB18,891 million as at the end of 2021. 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 144 days from 157 days for the corresponding period in 2021 to approximately 301 days.

Capital Expenditure

During the Reporting Period, capital expenditure incurred by the Group amounted to approximately RMB161 million, representing a 39.02% decrease as compared with RMB264 million for the first half of 2021. 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, among others, the changes in inventories, trade receivables and trade and bills payables, the Group's net cash flows generated from operating activities was approximately RMB55 million, as compared with net cash flows used of RMB2,141 million for the corresponding period last year.

Mainly due to the net proceed from purchase and disposal of financial assets at fair value amounted to approximately RMB258 million, net cash flows generated from investing activities were approximately RMB250 million, as compared with RMB672 million used in the first half of 2021.

During the Reporting Period, net cash flows used in financing activities amounted to approximately RMB2,355 million, as compared with RMB704 million used in the first half of 2021. The net cash outflows from financing activities were mainly due to, among others, the Group having repaid its corporated bonds amounted to RMB2,580 million 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 RMB613 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 borrowings.

As at 30 June 2022, the total borrowings of the Group comprised of interest-bearing bank loans, other loans, corporate bonds and convertible bonds.

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

	Fixed rate <i>RMB'000</i>	Floating rate <i>RMB'000</i>	Total <i>RMB'000</i>
Denominated in EUR	1,508,207	499,349	2,007,556
Denominated in RMB	20,831,138	63,311	20,894,449
	<u>22,339,345</u>	<u>562,660</u>	<u>22,902,005</u>

The above loans were repayable within 1 year.

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

	Fixed rate <i>RMB'000</i>	Floating rate <i>RMB'000</i>	Total <i>RMB'000</i>
Denominated in EUR			
Repayable in the second year	–	472,766	472,766
Denominated in RMB			
Repayable in the second year	42,511	128,636	171,147
Repayable in the third to fifth years, inclusive	37,331	1,189,209	1,226,540
Repayable beyond five years	53,997	1,141,533	1,195,530
	<u>133,839</u>	<u>2,932,144</u>	<u>3,065,983</u>

The corporate bonds comprised:

- (1) corporate bonds issued in 2018, renewed in 2020 with an aggregate nominal value of RMB102 million issued at a fixed coupon rate of 7.8% per annum with remaining term of 4 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 year;
- (2) corporate bonds issued in 2019, renewed in 2021 with an aggregate nominal value of RMB16 million issued at a fixed coupon rate of 7.8% per annum with remaining term of 4 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 year; and
- (3) corporate bonds issued in 2020 with an aggregate nominal value of RMB200 million issued at a fixed coupon rate of 7% per annum with a term 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. As at 30 June 2022, the net proceeds of US\$196.80 million have been fully used to repay the debts and related interests of the Group; and
- (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. As at 30 June 2022, the net proceeds of US\$99.11 million have been fully used to repay the debts and related interests of the Group.

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

As at 30 June 2022, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounted to approximately RMB28,056 million over total equity amounted to approximately RMB15,903 million, increase from 160.36% as at 31 December 2021 to 176.42%. The debt ratio was 37.67% as compared with 34.85% as at 31 December 2021, which was expressed as a percentage of total borrowings over total assets amounted to approximately RMB74,471 million.

Charge on Group Assets

As at 30 June 2022, the Group's bills payables and interest-bearing bank and other loans were secured by the Group's time deposits amounted to approximately RMB13,300 million and related interest receivables amounted to approximately RMB272 million, certain property and equipment, property under development and investment properties of the Group with a carrying value of approximately RMB7,550 million, the Group's certain securities held as investment in associates amounted to approximately RMB246 million and the Group's right-of-use assets with a carrying value of approximately RMB238 million. The Group's bills payables, secured interest-bearing bank loans and other loans amounted to approximately RMB32,460 million in total.

HUMAN RESOURCES

Employee and Remuneration Policy

As at 30 June 2022, the Group employed a total of 25,701 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees, including Directors, is determined with reference to their performance and the prevailing salary levels in the market.

OUTLOOK AND PROSPECTS

In the future, the Group will continue to implement the “Home • Living” strategy, effectively utilise the omni-retail ecological sharing platform, and accelerate the in-depth integration of online and offline. Meanwhile, in light of changes in the market situation, the Group aims to improve future operational efficiency in next stage. It plans to reorganise its business segments and optimise its asset structure, in order to cope with the impact of unfavorable market factors such as the pandemic, improve the profitability of the Company. It will use technological means to help the digital transformation of enterprises and improve consumer service experience throughout the process.

The Group’s strategic focus in the coming period will focus on the main business. The Company will use the vertical model to focus on retail sales of household appliances and consumer electronic products as its main business. Five main profit models have been formed: exhibition (offline boutique experience), marketing (online and offline omni-channel self-management + sharing supply chain), integrated solutions for home electronics products, extension products for wide scope home appliances and value-added services (delivery, after-sales, extended warranty, paid membership operation, etc.). Unrelated or loss-making businesses will be spun off, sold or discontinued. In the future, the Group will build an all-scenario and omni-channel provider of O2O appliances and consumer electronics retail by strengthening technology empowerment, comprehensively improve the operation quality of stores and comprehensively optimise the store network by closing down underperformed stores, opening new sizeable and premium stores and expanding franchised stores.

As the management promotes strategic focus in line with the current situation, the Group expects that in the current full-scenario, platform-based, and professional development process, it will quickly realise the Company’s operational elements, continue to improve operational efficiency, enhance profitability, and re-establish advantages in market competition. The management team of the Company will also strive to seize the precious opportunity, carry out excellent management, realise resource integration and business synergy, realise the value multiplication of the Group’s main business through synergy and empowerment, and create direct operating contributions. The management team will strengthen the interaction with external strategic partners, carry out more in-depth cooperation, continue to empower each other in terms of goods, services, traffic and technology, and jointly help the retail industry to upgrade, to meet the demands of pursuing better lives by Chinese families.

INTERIM DIVIDEND AND DIVIDEND POLICY

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022 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

- 1) In January and May 2022, the Group repaid the domestic bonds issued in 2016, with aggregate principal amount of RMB937,399,000 and RMB1,700,000,000, respectively.
- 2) On 28 June 2022, a total of 1,962,500,000 ordinary shares of the Company have been successfully placed at the placing price of HK\$0.40 per share to independent placees. The net proceeds received by the Company from the placing, after deducting relating fees and expenses, were approximately HK\$776,460,000. As at 30 June 2022, none of the proceeds have been received by the Group.

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 months ended 30 June 2022.

CORPORATE GOVERNANCE

The Company is committed to upholding good corporate governance practices. For the six months ended 30 June 2022, 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.

CHANGE OF ADDRESS OF BERMUDA REGISTERED OFFICE

The Board hereby announces that the address of the Company's Bermuda registered office at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda has been changed to:

Cumberland House 7th Floor
1 Victoria Street
Hamilton HM11
Bermuda

REVIEW BY AUDIT COMMITTEE

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 months ended 30 June 2022.

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 2022 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 2022

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

* *For identification purpose only*