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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)

SUPPLEMENTAL ANNOUNCEMENT

**(1) CONTINUING CONNECTED TRANSACTIONS –
PROVISION OF MANAGEMENT SERVICES
TO THE TARGET COMPANIES;
AND
(2) OPTION TO ACQUIRE EQUITY INTEREST
IN THE TARGET COMPANIES**

Reference is made to the announcement of GOME Retail Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) dated 11 October 2021 (the “**Announcement**”). Unless the context requires otherwise, capitalized terms used in this announcement shall have the same meaning as those used in the Announcement.

This announcement provides further information about the transactions contemplated under the Framework Agreement.

Scope of the Management Services

The strategic cooperation between the Group and the Target Companies is in substance a form of entrusted management through the procuring of Management Services by the Target Companies from the Group, and the aim is to enhance the operational efficiency, expand the business scale, broaden the brand influence and improve the profitability of the Target Companies.

Pursuant to the Framework Agreement, it is expected that the Group will share with or provide to the Target Companies, among others, management experience, consultation services, operational guidance, legal advisory support, technical support and staff training. The services to be provided by the Group will involve, to some extent, the mutual sharing of proprietary business information, such as business model, standard business contracts, customer and supplier lists, financial information, budgets, forecasts, business strategies and know-how.

Brief description of the respective services to be provided to each Target Company and how each Target Company can benefit from such services are set out below:

(1) GOME Home

GOME Home plans to operate different types of physical retail stores which are opened to third party merchants and charges display/shelving fees, service fees (including service fees for integration of online and offline operations, such as digitalization of online merchandise and usage fee for GOME Home's App or micro applications (小程序)), etc. on the third party merchants. This business model differs from the offline operation model of the Group mainly in the following two aspects. Firstly, the Group primarily engages in the retail sales of electrical appliances, whereas GOME Home primarily engages in the retail sales of all categories of merchandise. Secondly, the physical retail stores of the Group are primarily self-operated, whereas the retail stores of GOME Home are primarily operated by third party merchants. As the Group has over 30 years of experience in offline retail sales management, the Group is able to assist GOME Home in terms of, among others, retail store site selection, store decoration, store opening, and recruitment and training of professional personnel.

(2) Sharing and Joint Development

Sharing and Joint Development plans to operate as an open platform for the integration of retail resources allocation and sales and distribution. It aims to create a basic system (including supply chain, sales transaction, settlement, logistics and delivery, etc.) to enable third party merchants to set up new stores expeditiously. By way of illustration, if a new merchant intends to set up a new store but has no prior experience, the Sharing and Joint Development platform enables the merchant to build its own App and micro application (小程序) using the platform's tools and resources which can save their time and cost. Upon successful store opening, the platform's supply chain management system, membership system, point system, transaction system and related data can be shared with the merchant, enabling the merchant to benefit from cost advantage that is made available through the platform model. The different functions of the platform will be built based on a united set of rules and enjoy standardized attributes that can be relevant to different types of merchants. The platform can monetize its services by charging platform services fee, software services fee and value-added services fee. As the Group has substantial operations in different aspects such as supply chain management, sales transaction, settlement, logistics and delivery, and possesses a team of professional and experienced technical personnel, the Group is able to assist Sharing and Joint Development to efficiently build up the basic system.

(3) Home Decoration

Home Decoration is a home decoration design company with Internet attributes. It possesses a self-developed building information modelling (BIM) system and can provide technical services to business customers. In addition, it also has a sales platform targeting individual customers which enables general consumers to select and purchase their desired home decoration merchandise. There is a high degree of overlap between the target individual customers of Home Decoration and those of the Group given that consumers who require home decoration services or products would typically also have consumption needs on home appliances, and thus there is potential for mutual generation of traffic and sharing of customer sources. Further, Home Decoration also requires guidance from an experienced business partner to improve its supply chain system, and the Group is well-positioned to provide professional guidance, such as in terms of merchandise selection, procurement, logistics and after-sales services, based on its years of experience in managing its supply chain.

(4) Anxun Logistics

Anxun Logistics is currently providing logistics and warehousing services to the Group for the Group's home appliances merchandise and the parties have developed a constructive business relationship. Through the provision of Management Services, better synergy can be created between the Group and Anxun Logistics. For instance, the Group is expanding into non-home appliances merchandise, and Anxun Logistics is able to provide the relevant logistics and warehousing services to the Group. In addition, the Group has processed vast amount of customer data and information from its retail operations, and can provide corresponding guidance to Anxun Logistics, such as sharing insights about consumers' preferences and concerns with respect to the delivery process of home appliances merchandise as well as potential ways in which users' experience may be further enhanced.

(5) GOME Collections

GOME Collections plans to engage in the sales of wines and baijiu (白酒). In large and medium size cities, middle class families' have increasingly keen demand for a high quality of life and they are more inclined to purchase high-end products, including high-end home appliances and high-end wines and baijiu. Although belonging to different categories of goods, both high-end home appliances and high-end wines and baijiu have the same target group of consumers, namely the male population within the middle class. The high degree of overlap in their target group of consumers represents an opportunity for both the Group and GOME Collections to share their respective customer resources. In addition, the abundant experience of the Group in supply chain management, recruitment and training of professional sales personnel as well as provision of after-sales services enables the Group to provide guidance to GOME Collections.

Ultimate beneficial owner of the Target Companies

Each of the Target Companies is ultimately wholly owned by the Controlling Shareholder.

Basis of the service fee

Under the Framework Agreement, the Group charges an annual service fee for the provision of Management Services to each Target Company, which is calculated at a fixed progressive percentage (ranging from 1% to 3.5%) of the consolidated annual operating revenue of the relevant Target Company, details of which are set out below:–

Target Company	For the portion of consolidated annual operating revenue which is:			
	(A)	(B)	(C)	(D)
	Not more than RMB2,000 million	More than RMB2,000 million but not more than RMB5,000 million	More than RMB5,000 million but not more than RMB10,000 million	More than RMB10,000 million
GOME Home	2%	2.5%	3%	3.5%
Sharing and Joint Development	2%	2.5%	3%	3.5%
Home Decoration	1%	1.5%	2%	2.5%
Anxun Logistics	1%	1.5%	2%	2.5%
GOME Collections	1%	1.5%	2%	2.5%

In determining the range of the fixed progressive percentages, the Company took into account the following factors: (a) the estimated annual operating revenue of each Target Company as provided by the Target Companies; (b) the anticipated operational costs (including staff costs) of the Group for providing the Management Services; (c) the terms and conditions of comparable type of transactions (in terms of service scope, basis of service fee, relationship between the contracting parties, etc.) that are available from the public domain or within the knowledge of the Group.

Progressive rates (instead of flat rates) are adopted primarily because (a) when the underlying business is at an early stage of development, it is considered that a lower charge rate can alleviate the cost pressure on the relevant Target Company and facilitate its business growth; and (b) when the underlying business has grown in scale and become relatively more mature, a higher charge rate would enable the Group to maximize its profit in relation to the provision of Management Services.

Different progressive rates are adopted for different Target Companies. In particular, the progressive rates for GOME Home and Sharing and Joint Development are higher than those for Home Decoration, Anxun Logistics and GOME Collections. This is primarily because of the differences of their respective business models, the primary determining factor of which is whether the relevant Target Company possesses supply chain capabilities. In particular, (1) GOME Home and Sharing and Joint Development are considered to be pure platform companies and they do not possess supply chain capabilities. Following the Group's involvement in their management, the Group will provide comprehensive supply chain support to these two Target Companies. They will recognize revenue primarily through recognition of service fees in their capacity as pure platform companies; (2) Home Decoration, Anxun Logistics and GOME Collections have supply chain capabilities. The Group's involvement in their management will primarily be focused on enhancing their supply chain efficiency. These companies will recognize revenue primarily based on the prices of their merchandise and services; and (3) as compared to Home Decoration, Anxun Logistics and GOME Collections, the revenue to be recognized by GOME Home and Sharing and Joint Development will primarily be service fees with lower costs and broader profitability potential, hence higher management services fee rates are considered to be more applicable to them. In light of the foregoing, based on the commercial negotiations between the Group and the five Target Companies, it was agreed that the progressive rates of annual service fee for the provision of Management Services applicable to GOME Home and Sharing and Joint Development would be in the range of 2% to 3.5%, while that of Home Decoration, Anxun Logistics and GOME Collections would be in the range of 1% to 2.5%.

Equity incentive

As disclosed in the Announcement, in addition to the service fee, the Group will be entitled to receive equity incentive, representing in aggregate up to 10% equity interest in each Target Company as of the date of the Framework Agreement (subject to dilution due to changes in the paid up registered capital of the relevant Target Company after the date of the Framework Agreement) over the term of the Framework Agreement, comprising the following:–

- (i) 1% equity interest in the relevant Target Company for each of the years ending 31 December 2022, 2023 and 2024, respectively (i.e. up to 3% equity interest, in aggregate, as of the date of the Framework Agreement, which is subject to dilution as described above), if any one of the following conditions is satisfied in respect of the relevant year: (1) the Target Company has achieved a net profit for such year; (2) the Target Company has achieved a positive operating cash inflow for such year; or (3) as confirmed by the shareholders of the Target Company, the operating performance of the Target Company for such year has met its market positioning and strategic objectives; and
- (ii) 2%, 2% and 3% equity interest in the relevant Target Company for each of the years ending 31 December 2022, 2023 and 2024, respectively (i.e. up to 7% equity interest, in aggregate, as of the date of the Framework Agreement, which is subject to dilution as described above), if (1) the revenue of the Target Company for such year exceeds the agreed level (the “**Revenue Targets**”); or (2) the shareholders of the Target Company agree to grant the equity incentive.

The equity incentive, if any, shall be received by the Group in such form as would enable the Company or its designated entity to receive the relevant equity interest at nil consideration.

Details of the Revenue Targets are set out below:–

	For the year ending 31 December					
	2022		2023		2024	
	Revenue Target (RMB million)	Equity incentive (%)	Revenue Target (RMB million)	Equity incentive (%)	Revenue Target (RMB million)	Equity incentive (%)
GOME Home	2,500	2%	5,000	2%	10,000	3%
Sharing and Joint Development	3,000	2%	6,000	2%	12,000	3%
Home Decoration	2,500	2%	5,000	2%	10,000	3%
Anxun Logistics	1,500	2%	3,000	2%	6,000	3%
GOME Collections	3,000	2%	6,000	2%	12,000	3%

The Revenue Targets do not constitute performance forecast or guarantee in respect of the Target Companies.

The Revenue Targets are determined after negotiation between the parties with reference to the estimated revenue of the Target Companies for the three years ending 31 December 2024 based on the business development plans and internal estimates of the Target Companies. The following sets out further information about the basis of determination and assumptions of the Revenue Targets for each of the three years ending 31 December 2024:–

(1) GOME Home

For each of the three years ending 31 December 2024, the revenue of GOME Home based on its business development plan and internal estimate is roughly estimated to be RMB2,886 million, RMB12,816 million and RMB15,360 million, respectively. The primary source of revenue of GOME Home is expected to include product display fee and system services fee.

The estimated growth in revenue of GOME Home is primarily based on its plan for the total gross floor area of newly opened stores and the duration of operation since opening. GOME Home plans to open new stores in 300 cities with an aggregate gross floor area of three million square meters per year in the coming three years, amongst which priority will be given to the opening of large-scale stores which will primarily adopt the self-operated or asset-light cooperation mode.

For 2022, as the leased stores will require time for pre-opening renovation and decoration works, most of the new store openings will occur in the second half of the year, hence it is estimated that there will be 90 business operation days on average in 2022.

For 2023, as the three million square meters of newly opened stores in 2022 will have commenced operation, the number of business operation days for those stores will be 360 days. For the three million square meters of newly opened stores in 2023, with the accumulation of experience, the pre-opening renovation and decoration works may be finished in a shorter period of time, and hence it is estimated that will be 180 business operation days on average for these newly opened stores in 2023. Hence, taking into account the number of newly opened stores in 2023, the increase in the average number of business operation days as well as the relatively low base numbers in 2022, it is estimated there will be a relatively large year-on-year growth in revenue (approximately 334%).

For 2024, the year-on-year growth rate is estimated to decrease to roughly 20%, primarily because: (1) the base number for 2023 is relatively high; and (2) as the opening of large-scale stores will be the priority, it is estimated that the opening of large-scale stores in the target cities will be completed in 2022 and 2023, and the opening of new stores in 2024 will primarily be smaller scale stores with a majority of them being franchised stores (whereby the revenue to be generated will be primarily brand usage fee and system usage fee), hence the revenue to be generated from these stores is expected to be lower than that of large-scale stores and self-operated stores.

(2) Sharing and Joint Development

For each of the three years ending 31 December 2024, the revenue of Sharing and Joint Development based on its business development plan and internal estimate is roughly estimated to be RMB3,160 million, RMB6,320 million and RMB12,640 million, respectively. The primary source of revenue for the Sharing and Joint Development platform is estimated to comprise (i) technical service fees (to be generated from the merchants of the various platforms of the Group and third party merchants of external sources) and (ii) platform anchoring fees.

It is estimated that by the end of 2022, under the entrusted management by the Group, the Sharing and Joint Development platform can complete the establishment of its base layer data system. The participating third party merchants will comprise the merchants from the online, offline, supply chain and logistics platforms of the Group, and the platform will also commence merchant solicitation targeting the external sources of third party merchants. It is estimated that by the end of 2022, there will be roughly 10,000 merchants on the Sharing and Joint Development platform.

For 2023, as the base layer data system of the Sharing and Joint Development platform becomes more mature, the external merchant solicitation work can expand from the previous scope to a nationwide scale, and the proportion of external third party merchants will gradually increase as compared to the merchants originated from the Group, and Sharing and Joint Development platform will enter a stage of rapid growth. It is estimated that by the end of 2023, there will be roughly 20,000 merchants on the Sharing and Joint Development platform. It is estimated that there be a 100% increase in the technical services fee and platform anchoring fees in 2023 as compared to 2022.

For 2024, as the platform effect becomes more potent, external third party merchants will become the mainstream, and the Sharing and Joint Development platform will enter a stage of rapid growth. It is estimated that by the end of 2024, there will be roughly 40,000 merchants on the Sharing and Joint Development platform. It is estimated that there be a 100% increase in the technical services fee and platform anchoring fees in 2024 as compared to 2023.

The online platform, offline platform, supply chain platform and logistics and warehouse platform of the Group have a large number of third party merchants. These merchants have demand for the Sharing and Joint Development platform as Sharing and Joint Development can facilitate them to achieve the sharing of registered users, data and bonus points. Anchoring with the Sharing and Joint Development platform represent an opportunity to reach out to more users beyond the original platform and to gain more traffic, which may be further transformed into increased sales. The Group will be able to assist Sharing and Joint Development to gain the recognition of those third party merchants and convince them to anchor with the platform, who will form the initial group of merchants on the Sharing and Joint Development platform. At the same time, the business development team can also adopt different measures to attract more external third party merchants to join the platform. After the platform's efficiency has been demonstrated, through word-of-mouth promotion by the participating merchants as well as branding promotion, Sharing and Joint Development will be able to maintain stable growth in the long run.

(3) Home Decoration

For each of the three years ending 31 December 2024, the revenue of Home Decoration based on its business development plan and internal estimate is roughly estimated to be RMB5,000 million, RMB10,000 million and RMB20,000 million, respectively. Home Decoration's revenue is expected to primarily include self-operation revenue and platform revenue.

Currently, the Home Decoration platform has developed roughly 4,400 systematic platform based solutions for addressing potential problems that may arise from direct engagement of workers by property owners. It has also decomposed construction works into 266 work processes, made 52 video streams for basic work processes, and published the world's first virtual reality (VR) training game for construction work implementation which has attracted approximately 14.3 million viewers. On this basis, under the strategic cooperation framework which is empowered by the Group, the design, work implementation, materials segments of the Home Decoration platform can benefit from the online traffic of the "FUN" platform and obtain the support from the nationwide network of GOME stores for its business growth in the coming three years.

It is estimated that by the end of 2022, there will be approximately 10,000 designers, 20,000 workers, and 500 project managers/supervisors anchored with the online design platform, the number of newly offered stock keeping unit (SKU) merchandise will be approximately 70,000, covering approximately 48 key cities.

It is estimated that by the end of 2023, there will be approximately 20,000 designers, 50,000 workers, and 1,000 project managers/supervisors anchored with the online design platform, the number of newly offered SKU merchandise will be approximately 150,000, and covering approximately 100 key cities.

It is estimated that by the end of 2024, there will be approximately 40,000 designers, 100,000 workers, and 2,000 project managers/supervisors anchored with the online design platform, the number of newly offered SKU merchandise will be approximately 300,000, and covering approximately 280 key cities.

(4) Anxun Logistics

For each of the three years ending 31 December 2024, the revenue of Anxun Logistics based on its business development plan and internal estimate is roughly estimated to be RMB3,227 million, RMB4,519 million and RMB6,326 million, respectively. The revenue of Anxun Logistics is estimated to primarily include transportation service fees, warehousing fees and installation fees.

An annual growth rate of 40% has been adopted for Anxun Logistics for 2023 and 2024 primarily based on a combination of industry opportunities, future strategic operational plans as well as the internal financial estimates made by Anxun Logistics.

Currently, the logistics business in the PRC is still in the initial development stage. The rapid evolution of online commerce and the change in consumption scenery has driven the development of the logistics business. The fragmentation of e-commerce retailing traffic has brought new opportunities to the field of logistics, with supply chain empowerment being the future trend of the industry. Anxun Logistics aims to follow the industry trend and positions itself as an open, sharing and socialized logistics platform, forming a highly open and integrated supply chain logistics network. Currently, it has over 300 enterprise customers including various industry leading enterprise customers.

Going forward, the strategic goal of Anxun Logistics for the coming 2 to 3 years is to create an all-industry integrated supply chain platform and to provide supply chain solutions for a diversity of sceneries. The estimated high growth in 2023 and 2024 is primarily attributable to: (a) with the growth in GOME Retail's business scale, Anxun Logistics enjoy more opportunities to provide logistics services within the GOME eco-system; (b) in addition to the provision of standard courier services, fast delivery services, cold chain services, etc., Anxun Logistics is developing new business segments such as order grabbing platform, cloud storage platform, internet cargoes transportation platform, new standard warehousing and delivery, etc., and expects that these new business segments will bring in approximately 100 new partnering customers, thereby driving the overall volume of orders. When the new businesses become more mature in 2023 and 2024, it is estimated that there will be even faster growth in the volume of orders.

(5) GOME Collections

For each of the three years ending 31 December 2024, the revenue of GOME Collections based on its business development plan and internal estimate is roughly estimated to be RMB3,000 million, RMB6,000 million and RMB12,000 million, respectively. The revenue of GOME Collections is estimated to primarily include revenue generated from sales of wines and baijiu (白酒) to different parties along the supply chain.

For 2022, GOME Collections plan to establish cooperation relationship with the "FUN" online platform, establish platform open plan (POP) stores, and enhance the variety of wine products of the platform. It is estimated that there will be approximately 15 anchored brands, SKU merchandise will reach approximately 200.

For 2023, GOME Collections plan to achieve information and system synergy with the supply chain platform, introduce the distributors of old vintage baijiu (老酒) to the GOME supply chain eco-system, thereby further increase the number of GOME suppliers of wine products. At the same time, GOME Collections also plan to establish cooperation relationship with the logistics platform in the aspects of old vintage baijiu storage and transportation, which will further increase sales with the assistance of the comprehensive logistics system. It is estimated that there will be approximately 50 anchored brands, SKU merchandise will reach approximately 400.

For 2024, GOME Collections will have two important goals: (1) utilize big data and cloud computing to integrate with GOME's customer resources database, and adopt data mining techniques and multi-dimensional analysis of customer data to achieve precision sales and marketing by the business department; and (2) establish a financing platform which can create an open secondary market for the flow of merchandise as well as an investment channel for users, and through the online trade of merchandise ownership, facilitate users to obtain investment return or achieve timely disposals, thereby attract more investment-oriented users. It is estimated that for 2024, there will be approximately 200 anchored brands, SKU merchandise will reach approximately 500.

The above discussion on the Revenue Targets and the business plans, operation targets and objectives of the Target Companies contain forward-looking information with respect to the Target Companies which involve important assumptions, risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking information in this supplemental announcement should not be regarded as representation by the Board or the Company that the plans, targets and objectives will be achieved or realized. Shareholders of the Company and potential investors are advised not to place undue reliance on such forward-looking information and to exercise caution when dealing in the securities of the Company.

For the purpose of Chapter 14A of the Listing Rules, the equity incentive, if any, that may be received by the Group shall not be included in the Annual Caps and the Company is required to comply with the applicable requirements under Chapter 14A of the Listing Rules when the Group is entitled to receive the equity incentive.

By Order of the Board
GOME Retail Holdings Limited
Zhang Da Zhong
Chairman

Hong Kong, 16 November 2021

As at the date of this announcement, the Board 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.*