HUIYIN SMART COMMUNITY CO., LTD.
汇银智慧社区有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1280)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

1. Revenue for 2016 was RMB1,384.0 million, representing a decrease of 32.6% from approximately RMB2,053.9 million for 2015, which was mainly due to the abandon of certain traditional household appliance bulk distribution business so as to support the e-commerce and import merchandise business.

2. Gross profit margin for 2016 was 4.1%, while that of 2015 was 5.9%.

3. Operating loss for 2016 was approximately RMB658.5 million, while there was operating loss of approximately RMB384.1 million for 2015.

4. Loss for the year for 2016 was approximately RMB730.2 million, while there was loss of approximately RMB430.9 million for 2015.

5. Revenue of e-commerce and import merchandise business amounted to RMB629.9 million, representing 45.5% of the total revenue of the Group for 2016, while that proportion of 2015 was 29.8%.

The board (the "Board") of directors (the "Directors") of Huiyin Smart Community Co., Ltd. (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group" or "Huiyin") for the year ended 31 December 2016 together with the comparative figures for 2015.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	7	**1,384,029**	2,053,850
Cost of sales		**(1,327,070)**	(1,933,013)
Gross profit		**56,959**	120,837
Other income		**20,221**	22,770
Other losses — net		**(90,676)**	(33,958)
Selling and marketing expenses		**(188,474)**	(159,316)
Administrative expenses		**(456,516)**	(334,412)
Operating loss		**(658,486)**	(384,079)
Finance income		**11,807**	40,780
Finance costs		**(54,122)**	(80,150)
Finance costs – net		**(42,315)**	(39,370)
Share of loss of a joint venture		**(1,148)**	(14,904)
Share of (loss)/profit of an associate		**(211)**	442
Loss before income tax		**(702,160)**	(437,911)
Income tax (expense)/credit	8	**(28,026)**	7,001
Loss for the year		**(730,186)**	(430,910)
Attributable to:			
– Equity holders of the Company		**(722,752)**	(398,598)
– Non-controlling interests		**(7,434)**	(32,312)
		(730,186)	(430,910)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	9	**(45.25)**	(31.24)
– Diluted	9	**(45.25)**	(31.24)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loss for the year	**(730,186)**	(430,910)
Other comprehensive income or loss	**–**	–
Total comprehensive loss for the year	**(730,186)**	(430,910)
Attributable to:		
– Equity holders of the Company	**(722,752)**	(398,598)
– Non-controlling interests	**(7,434)**	(32,312)
	(730,186)	(430,910)

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights		**45,857**	46,965
Property, plant and equipment		**225,737**	238,734
Investment properties		**5,405**	5,575
Intangible assets		**3,744**	3,672
Investment in and loan to a joint venture		**—**	261,944
Investment in an associate		**934**	1,181
Deferred income tax assets		**11,486**	169,788
		293,163	727,859
Current assets			
Inventories		**228,547**	293,878
Trade and bills receivables	5	**68,524**	83,616
Prepayments, deposits and other receivables		**499,756**	934,449
Restricted bank deposits		**646,712**	603,040
Cash and cash equivalents		**159,118**	71,500
		1,602,657	1,986,483
Total assets		**1,895,820**	2,714,342
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**11,462**	9,708
Reserves		**302,852**	754,758
		314,314	764,466
Non-controlling interests in equity		**22,436**	12,833
Total equity		**336,750**	777,299
LIABILITIES			
Non-current liabilities			
Borrowings		**7,358**	6,722
Deferred income tax liabilities		**211**	211
Deferred government grants		**2,701**	2,760
		10,270	9,693
Current liabilities			
Trade and bills payables	6	**850,852**	891,379
Accruals and other payables		**326,047**	301,175
Borrowings		**305,084**	532,340
Current income tax liabilities		**13,257**	148,896
Other current liabilities		**53,560**	53,560
		1,548,800	1,927,350
Total liabilities		**1,559,070**	1,937,043
Total equity and liabilities		**1,895,820**	2,714,342

NOTES:

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 February 2008 as an exempted company with limited liability under the Companies Law (2009 Revision as amended, supplemented or otherwise modified) of the Cayman Islands. The address of its registered office is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. The Company changed its name from China Yinrui Investment Holding Co., Ltd. to Huiyin Household Appliances (Holdings) Co., Ltd. on 8 December 2009, and then changed its name to Huiyin Smart Community Co., Ltd. on 16 July 2015.

The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the "Group") are mainly engaged in the retail and bulk distribution sales of household appliances, as well as e-commerce and import merchandise business in the People's Republic of China (the "PRC").

The Group's businesses were primarily carried out by Yangzhou Huiyin Technology Group Co., Ltd. ("Yangzhou Huiyin", formerly known as "Yangzhou Huiyin Household Appliance (Group) Co., Ltd.") and its subsidiaries. In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), certain reorganisation steps (the "Reorganisation") were carried out in 2008. After the completion of the Reorganisation on 3 April 2008, the Company became the holding company of the subsidiaries comprising the Group.

The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 March 2010.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including convertible bonds) at fair value through profit or loss.

The consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated.

The Reorganisation as described in Note 1 above has been accounted for as a reverse acquisition under HKFRS 3 "Business Combinations" since the completion of the Reorganisation on 3 April 2008 resulted in the Company becoming the holding company of Yangzhou Huiyin, through its wholly-owned subsidiary, China Yinrui (HK) Investment Holding Company Limited ("China Yinrui HK"). For accounting purposes, in preparing the financial statements, Yangzhou Huiyin is treated as the acquirer while the Company and China Yinrui HK were deemed to have been acquired by Yangzhou Huiyin. The financial statements of the Group have been prepared as a continuation of the consolidated financial statements of Yangzhou Huiyin and of the Group.

2.1 Going Concern

The Group meets its day-to-day working capital requirements through its operating cash inflow and banking facilities. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's merchandises; and (b) the availability of banking finance for the foreseeable future. The Group's forecasts and projections show that the Group should be able to operate with financing within the level of its current banking facilities secured by the Group's assets and guaranteed by related parties together with its internally generated funds from operating cash inflows, taking into account of the reasonably possible changes in trade performance. The directors are confident that the Group has adequate financial resources to continue its operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(i) New amendments and interpretation of HKFRSs mandatory for the financial year beginning on 1 January 2016 that are relevant to the Group's operations:

- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operations. The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in HKFRS 3 "Business Combinations").

- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation. The amendments clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to HKAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate.

- Amendment to HKAS 27 on equity method in separate financial statements. The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Amendments from annual improvements 2012-2014 cycle, affecting the following 4 standards: HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", HKFRS 7 "Financial Instruments: Disclosures", HKAS 19 "Employee Benefits" and HKAS 34 "Interim Financial Reporting".

- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 on investment entities: applying the consolidation exception. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

- Amendments to HKAS 1 on disclosure initiative. The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

The adoption of the above new standards and amendment starting from 1 January 2016 did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2016.

(ii) The following are new standards and amendments of HKFRSs that have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2016 and have not been early adopted by the Group:

- Amendments to HKAS 12 'Income Taxes' (effective for annual periods beginning on or after 1 January 2017)
- Amendments to HKAS 7 'Statement of Cash Flows' (effective for annual periods beginning on or after 1 January 2017)
- HKFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 1 January 2018)
- HKFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2018)
- HKFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019)
- Amendments to HKFRS 10 and HKAS 28 'Regarding sale or contribution of assets between an investor and its associate or joint venture' (effective for annual periods to be announced)

The Group has not early adopted any new accounting and financial reporting standards or amendments to existing standards which have been issued but are not yet effective for the year ended 31 December 2016. The Group is in the process of making an assessment on the impact of these new standards and amendments and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position, except for the new financial reporting standard HKFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019) which the Group is not yet in a position to conclude.

4 SEGMENT INFORMATION

The chief operating decision-maker ("CODM"), being the chairman and executive directors of the Company, reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on the reports reviewed by the chairman and executive directors that are used to make strategic decisions.

Geographical segment is not presented as 100% of the Group's sales and business activities are conducted in the PRC.

The principal operation of the Group is organised into two main operating segments:

Traditional business, including the results from sales of household appliances through retail and wholesale channel.

E-commerce and import merchandise business, including the result from sales of household appliances and import merchandise through online channels, and sales of import merchandise through retail channel.

All other segments included the results from rendering maintenance and installation services, commission from agency services for sales of lotteries until September 2015 and real estate business from January 2016 to October 2016 with the acquisition and disposal of a subsidiary during the year.

The segment results for the year ended 31 December 2016 are as follows:

Segment results	Traditional business RMB'000	E-commerce and import merchandise business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	1,171,216	629,937	10,047	–	1,811,200
Inter-segment revenue	(427,171)	–	–	–	(427,171)
Revenue from external customers	744,045	629,937	10,047	–	1,384,029
Operating (loss)/profit	(428,754)	(79,866)	356	(150,222)	(658,486)
Finance costs - net					(42,315)
Share of loss of a joint venture					(1,148)
Share of loss of an associate					(211)
Profit before income tax					(702,160)
Income tax expense					(28,026)
Loss for the year					(730,186)
Other segment items are as follows:					
Capital expenditure	1,686	1,791	–	17,200	20,677
Depreciation charge	17,145	6,248	202	–	23,595
Amortisation charge	1,941	695	–	–	2,636

The segment results for the year ended 31 December 2015 are as follows:

Segment results	Traditional business RMB'000	E-commerce and import merchandise business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	2,688,447	612,896	20,210	–	3,321,553
Inter-segment revenue	(1,267,703)	–	–	–	(1,267,703)
Revenue from external customers	1,420,744	612,896	20,210	–	2,053,850
Operating (loss)/profit	(200,452)	(136,480)	1,273	(48,420)	(384,079)
Finance costs - net					(39,370)
Share of loss of a joint venture					(14,904)
Share of profit of an associate					442
Loss before income tax					(437,911)
Income tax credit					7,001
Loss for the year					(430,910)
Other segment items are as follows:					
Capital expenditure	25,527	17,381	–	4,080	46,988
Depreciation charge	12,588	11,187	293	–	24,068
Amortisation charge	1,651	1,123	–	–	2,774

Unallocated mainly represented the expenses incurred by the Company, such as Share Option Scheme expenses, certain key management compensation and exchange gains/(losses) arising from bank borrowings and bank deposits denominated in foreign currencies.

Segment assets and liabilities as at 31 December 2016 are as follows:

Segment assets and liabilities	**Traditional business RMB'000**	**E-commerce and import merchandise business RMB'000**	**All other segments RMB'000**	**Group RMB'000**
Segment assets	**725,739**	**482,946**	**5,343**	**1,173,286**
Unallocated assets				**681,792**
Total assets				**1,895,820**
Segment liabilities	**604,377**	**397,462**	**1,983**	**1,033,822**
Unallocated liabilities				**555,248**
Total liabilities				**1,559,070**

Segment assets and liabilities as at 31 December 2015 are as follows:

Segment assets and liabilities	Traditional business RMB'000	E-commerce and import merchandise business RMB'000	All other segments RMB'000	Group RMB'000
Segment assets	867,722	784,787	25,878	1,678,387
Unallocated assets				1,035,955
Total assets				2,714,342
Segment liabilities	867,869	375,348	12,377	1,255,594
Unallocated liabilities				681,449
Total liabilities				1,937,043

Segment assets consist primarily of property, plant and equipment, investment properties, land use rights, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables and operating cash and mainly exclude investment in and loan to a joint venture, deferred tax assets, restricted bank deposits pledged for bank borrowings and bills payable, investment in an associate and corporate assets.

Segment liabilities comprise operating liabilities and exclude items such as deferred income tax liabilities, current income tax liabilities, borrowings and corporate liabilities.

Capital expenditure comprises additions to property, plant and equipment, intangible assets and contribution into a joint venture.

5 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**66,637**	74,586
Less: Provision for impairment	**(3,253)**	(6,778)
Trade receivables, net	**63,384**	67,808
Bills receivable	**5,140**	15,808
Trade and bills receivables, net	**68,524**	83,616

The credit term granted to customers by the Group ranges from 30 days to 90 days. The maturity of bills receivable ranges from 3 months to 6 months.

The ageing analysis of trade receivables, before provision for impairment, as at the balance sheet date is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
0 – 30 days	**23,619**	4,822
31 – 90 days	**34,675**	56,946
91 – 365 days	**3,433**	6,214
1 year – 2 years	**1,619**	2,494
2 years – 3 years	**2,442**	2,806
Over 3 years	**849**	1,304
Total	**66,637**	74,586

All trade and bills receivables are denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

The maximum exposures of the Group to credit risk from trade and bills receivables as at the balance sheet date were the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security.

As at 31 December 2016, trade receivables of RMB 3,253,000 (31 December 2015: RMB 6,778,000) were past due, impaired and provided for. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
less than 1 year	**–**	304
1 year – 2 years	**56**	2,378
2 years – 3 years	**2,351**	2,802
Over 3 years	**846**	1,294
Total	**3,253**	6,778

As at 31 December 2016, trade receivables of RMB1,657,000 (2015: RMB 6,196,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
31 – 90 days	**–**	5,725
91 – 365 days	**–**	341
1 year – 2 years	**1,563**	116
2 years – 3 years	**91**	4
Over 3 years	**3**	10
Total	**1,657**	6,196

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**6,778**	4,376
(Reversal)/accrual of provision for receivable impairment	**(3,525)**	2,402
At end of the year	**3,253**	6,778

Bills receivable do not contain impaired assets.

As at 31 December 2016 and 31 December 2015, no bills receivable had been pledged as collateral for the Group's bank acceptance bills.

As at 31 December 2016 and 2015, no bills receivable were discounted to the bank with recourse.

6 TRADE AND BILLS PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables	**122,142**	96,184
Bills payable	**728,710**	795,195
	850,852	891,379

Most of the principal suppliers require prepayment for goods purchase. The credit period granted by the Group's principal suppliers ranges from 15 to 60 days.

Ageing analysis of trade payables as at the balance sheet date is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
0 – 30 days	**93,457**	62,560
31 – 90 days	**10,147**	18,600
91 – 365 days	**13,449**	9,893
1 year – 2 years	**2,675**	2,677
2 years – 3 years	**1,493**	1,270
Over 3 years	**921**	1,184
	122,142	96,184

The trade and bills payables are denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

As at 31 December 2016, restricted bank deposits of RMB 529,999,000 (2015: RMB 466,805,000) were pledged as collateral for the Group's bank acceptance bills of RMB 728,710,000 (2015: RMB 755,195,000).

As at 31 December 2015, restricted bank deposits of RMB 20,000,000 together with certain land use rights and buildings with a net book amount of RMB 25,192,200 and RMB 30,781,000 respectively were pledged as collateral for the Group's bank borrowings of RMB 15,000,000 as well as the Group's bank acceptance bills of RMB 40,000,000.

As at 31 December 2016 and 31 December 2015, no bills receivable was pledged or discounted to the bank with resources .

7 REVENUE

Turnover of the Group comprises revenues recognised during the year as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of goods		
– Traditional business	**744,045**	1,420,744
including:		
Retail	**327,852**	547,935
Bulk distribution	**416,193**	872,809
– E-commerce and import merchandise business	**629,937**	612,896
	1,373,982	2,033,640
Rendering of services		
– Maintenance and installation services	**10,047**	12,381
– Agency service for sales of lotteries	**—**	7,829
	10,047	20,210
Total revenue	**1,384,029**	2,053,850

8 INCOME TAX (EXPENSE)/CREDIT

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
PRC enterprise income taxes		
— Current income tax		
Accrual during the year	**(13,349)**	(27,863)
Reversal during the year(note)	**143,532**	—
	130,183	(27,863)
— Deferred income tax		
Recognised during the year	**(14,677)**	34,867
Reversal during the year (note)	**(143,532)**	—
	(158,209)	34,864
	(28,026)	7,001

Note:

Because of restructuring of the Group's business, deferred tax assets together with current income tax liabilities of RMB143,532,000 arose from the traditional business were reversed.

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to loss in the respective regions as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loss before income tax	**(702,160)**	(437,911)
Tax calculated at domestic tax rates applicable to losses in the respective regions	**(158,154)**	(99,530)
Tax effects of:		
Expenses not deductible for tax purpose	**25,276**	19,251
Tax losses for which no deferred income tax asset was recognised	**75,578**	37,545
Deductable temporary differences for which no deferred tax asset was recognised	**85,326**	35,733
Income tax (credit)/expenses	**28,026**	(7,001)

The weighted average applicable tax rate was 24% (2015: 23%).

(a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the year (2015: Nil).

(b) PRC enterprise income tax

In accordance with the Corporate Income Tax Law of the PRC (the "new CIT law") which became effective on 1 January 2008, PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the PRC enterprise income tax purpose.

(c) PRC withholding income tax

According to the new CIT law, starting from 1 January 2008, a 10% withholding tax is levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. Such withholding income tax is included in deferred income tax. The Group has not accrued for any PRC withholding income tax for the year ended 31 December 2016 as its PRC subsidiaries did not have any retained profits available for distribution outside the PRC at end of the year after setting off accumulated losses of previous years (2015: Nil).

9 LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2016	2015
Loss attributable to equity holders of the Company (RMB'000)	**(722,752)**	(398,598)
Weighted average number of ordinary shares in issue (thousand)	**1,597,321**	1,275,902
Basic loss per share (RMB cents)	**(45.25)**	(31.24)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the settlement in ordinary shares for contingent consideration arising from business combination assuming it was settled by issuance of ordinary shares.

	Year ended 31 December	
	2016	2015
Loss attributable to equity holders of the Company (RMB'000)	**(722,752)**	(398,598)
Weighted average number of ordinary shares in issue (thousand)	**1,597,321**	1,275,902
Adjustment for: – Settlement in ordinary shares for the contingent consideration arising from business combination	**—**	—
Exercise of the share options granted under the Share Option Scheme	**—**	—
Exercise of conversion right of the convertible bonds	**—**	—
Weighted average number of ordinary shares for diluted loss/earnings per share (thousand)	**1,597,321**	1,275,902
Diluted loss per share (RMB cents)	**(45.25)**	(31.24)

For the year ended 31 December 2016 and 31 December 2015, the impact of settlement in ordinary shares for the contingent consideration arising from business combination and exercise of the share options granted under the Share Option Scheme was anti-dilutive.

For the year ended 31 December 2015, the impact of exercise of the conversion right of the convertible bonds was anti-dilutive.

10 DIVIDENDS

No interim dividend was declared during the year (2015: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2016, taking advantage of its famous brandname "Huiyin" and "Huiyin Lehu • Global Community", the Group further enhanced the brand awareness of the "Huiyin" and "Huiyin Lehu" brand in the target markets.

BUSINESS REVIEW

An integrated business model

Since our establishment, the Group gradually became a leader in the third and fourth-tier home appliance markets in China. However with the development and expansion of the business scope, the Group has transformed to a household appliances, import merchandise business, internet+, and community e-commerce operator, and was striving to be a leader of smart community life service platform and in the import merchandise direct selling industry in China. During the year, faced with the rapid progress of consumption upgrading, the Group actively captured opportunities to realize transformation. The Group fully leveraged sales network and client resources it already has, promoted the construction of smart community life service platform rapidly, and applied the thinking of Internet+ to constitute a perfect closed-loop of our business model. Stores have been opened in second-tier cities such as Nanjing City and Suzhou City to expand our network into first and second-tier markets. Taking advantage of its famous brand name "Huiyin" and "Huiyin Lehu • Global Community (匯銀樂虎 • 全球家)", the Group further enhanced the brand awareness of the "Huiyin" and "Huiyin Lehu" brand in the consumer market, expanded the range of products and services available, and captured the change in consumption temperament and shopping habit of people.

Supported by its existing retail business, the Group actively expanded all business segments through self-operated stores and its extensive sales network. During the year, to enhance the customer royalty, with supply chain management and customer relationship management as the core, the Group further standardized its internal operation and communication, and provided extensive after-sales and logistic services to customers. Such efforts on client experiences were well received and recognized by the consumers.

During the year, the Group continued to optimize its store management program. As at 31 December 2016, the Group had 41 self-operated stores, including 29 general stores, 2 brand retail stores and 10 import merchandise experience bases. For the year ended 31 December 2016, total revenue of the Group was approximately RMB1,384.0 million, representing a decrease of 32.6% compared with approximately RMB2,053.9 million of last year. Loss for the year of the Group was approximately RMB730.2 million, while loss for last year was approximately RMB430.9 million. Gross profit margin decreased to 4.1%, representing an decrease of 1.8 percentage points. The loss recorded for the year was mainly attributable to the expenses incurred in connection with the grant of the share options to eligible participants based on the demand of human resources for the rapid expansion of e-commerce and import merchandise business, the provisions made by the Group in respect of the amounts due from suppliers because of the worsen credit qualities of suppliers, and the loss on disposal of a subsidiary.

E-commerce and import merchandise business

By the online to offline sales network of "Huiyin Lehu • Global Community (匯銀樂虎 • 全球家)", the Group's e-commerce and import merchandise business developed rapidly. During the year, revenue through the "Huiyin Lehu • Global Community" was approximately RMB629.9 million, representing an increase of 2.8% from RMB612.9 million for 2015. Sales revenue through e-commerce and import merchandise business accounted for 45.5% of the total revenue of the Group for the Year 2016, including retail sales ("business to customers" ("B2C")) of household appliance and import merchandise and bulk distribution ("business to business" ("B2B")) of household appliance.

Import merchandise business

As the economy developed, Chinese middle class is growing fast, and the consumer market is presenting a tendency of changing from satisfying basic needs to meeting diversified demand and consumption upgrading. With the increasing number of food safety problems and consumer concerns, demand for foreign goods increased dramatically, which has boosted the procurement agent industry and import merchandise business. In response to this situation, the Group entered into the import merchandise business from the end of Year 2015.

During the year, the Group's import merchandise business developed rapidly. As at 31 December 2016, partnering with "Ningbo Free Trade Zone Administrative Committee (寧波保稅區管委會)" and other carefully selected suppliers, the Group has established "Huiyin Lehu" branded import merchandise experience bases in Yangzhou City, Nanjing City, Nantong City, Taizhou City, Changzhou City, Suzhou City and Hefei City. The import merchandise experience bases usually have a business area of 3000-5000 square meters, and provide with thousands of import merchandise including maternal and infant products, food, cosmetics, personal care products, healthcare products, and wine etc. The Group has been seeking to purchase selected merchandise directly from producers. With less intermediate agencies, this advantage enables the Group to provide customers with products of higher quality with lower price, and meanwhile suppliers can get payment more quickly. Through the effective supply chain management, our inventory turnover increased and costs are well controlled.

The Group has launched the membership system during the year. Adhere to customer-centric principle, we lay emphasis on membership experience. Customers can enjoy the member preferential price as well as prominent services by investing in the membership. Sales of the membership not only brings steady cash flow to the Group, but also increases customer loyalty. Members can also order import merchandise through our online platform. Two new brands named "Huiyin Lehu • Global Community (匯銀樂虎 • 全球家)" and "Excellent Home (優家)" were created to support the import merchandise business. This business model was welcomed by local government, which enabled the Group to expand at low cost.

E-commerce

The Group achieved the goal of a year-on-year growth in e-commerce sales through building an on-line platform and organizing an e-commerce professional team. Mobile application, wechat mall, electronic shelves and PC terminal went live and helped to increase online traffic in all channels. A new mobile application for the brand "Huiyin Lehu • Global Community (匯銀樂虎 • 全球家)" was developed during this year and sales through this application achieved remarkable results on the "Double 11 Day (雙11購物節)". In order to enhance customer experience and cater to user habits, the Group has been optimizing the user interface, system management, as well as ordering and payment process continuously. We also use content marketing on the online platform. Online social media distribution and feedback sharing was provided to promote user interaction and activity. New approach such as big data analysis and personas was used to model user interest and provide appropriate purchase recommendations to users accordingly. Along with offline promotion and high-quality logistic system, the Group attracts consumers and improves consumer loyalty successfully.

With the support of the Group's extensive sales network and well-covered logistics system, "Huiyin Lehu • Global Community" developed a shopping experience combining online and offline sales by allowing customers to purchase online and receive delivery at home or from its physical points. The "online to offline ("O2O")" business integration allowed centralized management of the Group's downstream business.

To really solve the "last mile" problem of O2O business, in-store multi-media terminals are connected with the online platform which enables customers to purchase products without leaving their homes, and the easy-to-use interface helps to strengthen user experience. Customers can choose delivery to home at agreed time, or pick-up by themselves from the two types of storage containers in community life service platforms, one of which is for refrigeration. Meanwhile the Group provides community life services such as housekeeping and household appliance maintenance service to bring more convenience to residents. In addition, to fulfill our corporate social responsibility, the Group organizes public welfare activities regularly, which is also helped to improve our brand awareness.

Traditional business of household appliances

Retail business

The Group has placed its traditional household appliance business focus on high-growth markets in third and fourth-tier cities in Jiangsu and Anhui Provinces, and sold a variety of products through its self-operated stores.

During the year, the Group actively optimized its product structure and flexibly adjusted product portfolio in response to market demand. Benefited from the rapid development of technology, household appliances have become more functionalized, intelligent and personalized, and demand for smart household appliances have been growing fast. With growing public concern over environment pollution, the Group launched a series of health-care products, such as air purifier and water cleaner to meet customers needs. To improve profitability of its business, the Group also focused on supply chain management and inventory management, and maintained long-term cooperation relationship with household manufacturers.

In respect of client management, the Group continued to implement its business strategies focusing on client relationship management with efforts including sorting out client information and establishing client database by means of alliance across different industries, group purchases and community promotion, analyzing consumer characteristic of clients, establishing and maintaining good interaction with customers. Meanwhile, the Group continued to expand the connection of e-commerce platform to its existing sales network, enhanced synergy and interaction of online and offline sales, and realized resource and information sharing through the online platform. Through the implementation of various optimization strategies such as store renovation, merchandise display intelligentization, service-oriented marketing, staff skill improvement and corporate advertisement, the Group improved its overall competitiveness and operation efficiency effectively during the year.

Bulk distribution business

The Group distributes as a supplier to its franchised stores as well as other independent third parties, which mainly include household appliance retailers and corporate customers. With the help of an extensive well-developed sales network in the third and fourth-tier markets, the Group well understands consumers' demand and preferences in target market, which enabled it to better meet the market demand and consolidate its market position.

In response to the challenging market conditions, the Group launched flexible and diversified promotion activities such as group purchase of brand products and warehouse marketing to target customers during the year. However, due to the burden of extensive investment in working capital of the bulk distribution business, the Group surrendered certain distribution rights from the end of year 2015 so as to support the new e-commerce and import merchandise business and smooth our transition process.

Client services: after-sales and logistics management

Offering of after-sales services is not only an important contributor to the continuous Group's businesses but also a competitive advantage of the Group. The Group offers a broad range of installation and maintenance services for household appliance products purchased from the Group or from other third party vendors and suppliers, which also provides satisfactory services and technical support for the Group's businesses. During the year, the Group offered free maintenance service for registered members of the Group, which is widely welcomed and helpful to expand our membership. Operating through authorized arrangements with independent third party operators allowed the Group to extend the geographic coverage of its after-sales customer service with less capital investment and operational risks. As at 31 December 2016, the Group operated and managed a total of 39 authorized service centers, which provided thoughtful and diversified after-sales warranty services for consumers across a broad geographical area.

The Group was endeavouring to improve logistics management of its existing logistics network, warehouses and distribution centers in order to support its growing business operations. During the year, the Group enhanced information management and implemented real-time monitoring systems relating to its security system, inventory and employee performance. Meanwhile, in addition to cooperation with qualified third-party logistics suppliers, the Group also established our own logistics team. GPS was installed to optimize the product delivery process as well as the online shopping experience.

The Group has integrated after-sales and logistics into one centralized platform to improve efficiency and effectiveness of client service management.

Diversified marketing and promotion strategies

In order to meet the market demand of consumers in different regions, the Group has adopted diversified marketing and brand promotion strategies and has flexibly established strategic store locations in different areas. During the year, the Group continued to upgrade and renovate stores, optimized store distribution and product structure and made improvements in sales, management and services. Promotion activities including "Brand Special Group Purchase (品牌專場團購)", "Horizontal Alliance Special Promotion (異業聯盟專場促銷)", "Smart Community Service Marketing (智慧社區服務營銷)" and "Maternal and Infant Day (母嬰節)" were launched, which offered more concessions to consumers and contributed to the Group's sales revenue.

In respect of customer base expansion, the Group continued to develop ecosystem and achieved electronic customer information management. This program has enabled the Group to formulate more accurate marketing approaches for loyal customers and improve its marketing and brand promotion strategies. Community services such as household appliances free maintenance, free housekeeping and change of the Old for New Program were offered to attract community consumer.

In respect of brand marketing, by combing traditional marketing strategies with innovative media, the Group increased the awareness of "Huiyin" and "Huiyin Lehu • Global Community" brand. During the year, in addition to cooperating with multi-media channels including TV, radio and internet, the Group started to promote through mobile devices to improve the communication and interaction with members of Huiyin. Public welfare events such as community recreational and sports activities, health lectures and campus activities were held to improve the perceptions of consumers toward the brand.

Management information system integration and upgrade

The Group is committed to integrating and reforming its existing information management system to cope with its business growth and to obtain sufficient information for use by the Group to optimize its operations and management. Informatization platform has been implemented to integrate the management of inventory, logistic and client service system. During the year, to cope with the new import merchandise business, the Group introduced a new management system. We have also implemented membership management system to analyze membership data and provide members with outstanding services. Furthermore, mobile communication platform has been used to optimize customer experience and improve the efficiency of client services.

Human resources management

As at 31 December 2016, the number of the Group's employees was 1,138. In 2016, the Group organized over 100 training sessions of different topics covering staff induction training, product knowledge, sales skills, leadership skills and corporate culture to meet the needs of employees at different levels, with total attendances reaching about 3,700.

During the year, the Group continued to fulfill its corporate social responsibility, and actively participated in community welfare undertakings to the society. Helping the Disabled activities have been going on for several years. In 2016, the Group was honoured with various awards, including "Innovation Model Enterprise in Commerce Circulation Service Industry of Jiangsu Province (江苏省商貿流通服務業模式 新示範企业)" by the Commercial Association of Jiangsu Province (江苏省商业联合会), which highlighted the Group's brand creditworthiness and awareness.

FINANCIAL REVIEW

Revenue

During the year, due to the Group's strategy transformation, the impact of macro-economic slowdown and declining demand in the household appliances consumer market, the Group's revenue was approximately RMB1,384.0 million, representing a decrease of 32.6% from approximately RMB2,053.9 million in 2015.

Turnover of the Group comprises revenues by operation as follows:

	2016 RMB'000		2015 RMB'000	
Sales from traditional business	**744,045**	**26.7%**	1,420,744	27.5%
– Retail	**327,852**	**23.7%**	547,935	26.7%
– Bulk distribution	**416,193**	**30.1%**	872,809	42.5%
Sales from e-commerce and Import merchandise business	**629,937**	**45.5%**	612,896	29.8%
Rendering of services	**10,047**	**0.7%**	20,210	1.0%
Total revenue	**1,384,029**	**100.0%**	2,053,850	100.0%

The decrease in sales from traditional channels was mainly attributable to the impact of the macro-economic slowdown and the strategic change of the Group to focus on e-commerce and import merchandise business.

Cost of sales

Cost of sales decreased by approximately 32.3% from RMB1,933.0 million for 2015 to RMB1,327.1 million for 2016, primarily due to the decrease in sales volume.

Gross profit

As a result of the above principal factors, the Group's gross profit decreased by approximately 52.8% from RMB120.8 million for 2015 to RMB57.0 million for 2016.

Gross profit margin of the Group by operation is as follows:

	2016	2015
Traditional business	**2.3%**	4.4%
E-commerce and import merchandise business	**5.7%**	7.0%
Overall	**4.1%**	5.9%

During the year, the decrease in gross profit margin of traditional business was primarily due to the decrease of rebate amount from suppliers arising from the decrease of purchase volume. The gross profit margin of e-commerce and import merchandise business decreased, which was primarily due to our control on product selling price to obtain more competitive advantage for the new business.

Other income

During the year, the Group's other income amounted to approximately RMB20.2 million, representing a decrease from approximately RMB22.8 million for 2015.

Other losses

During the year, the Group recorded other losses of approximately RMB90.7 million, while other losses of approximately RMB34.0 million was recorded in 2015, primarily due to the investment loss in relation to the disposal of a wholly-owned subsidiary.

The Group entered into an equity transfer agreement dated 16 December 2016, pursuant to which the Group sold and transferred all the equity interest held in Yangzhou Huiyin Real Estate Co., Ltd. ("Huiyin Real Estate"). Upon completion of this transaction, Huiyin Real Estate ceased to be a subsidiary of the Group and the Group suffered a realized loss before tax of approximately RMB90.2 million.

Selling and marketing expenses

During the year, the Group's total selling and marketing expenses amounted to approximately RMB188.5 million, representing an increase from approximately RMB159.3 million for 2015, which was mainly due to the increase of promotion and advertising expenses resulting from the rapid expansion of e-commerce and import merchandise business.

The following table sets out a summary for selling and marketing expenses as a percentage of total revenue:

As a percentage of revenue	**2016**	2015
Employee benefit expenses	**3.59%**	2.13%
Service charges	**0.14%**	0.12%
Operating lease expenses in respect of buildings and warehouses	**2.49%**	1.94%
Promotion and advertising expenses	**4.17%**	1.53%
Depreciation of property, plant and equipment	**1.12%**	0.88%
Utilities and telephone expenses	**0.61%**	0.33%
Transportation expenses	**0.63%**	0.54%
Travelling expenses	**0.15%**	0.08%
Others	**0.72%**	0.21%
Total selling and marketing expenses	**13.62%**	7.76%

The selling and marketing expenses increased slightly, while the percentage of selling and marketing expenses of revenue increased significantly mainly due to the decrease of revenue.

Administrative expenses

During the year, the Group's total administrative expenses amounted to approximately RMB456.5 million, representing a significant increase from RMB334.4 million for 2015, which was mainly due to the increase of provision for impairment on receivables.

The following table sets out a summary for administrative expenses:

	2016	2015
	RMB'000	RMB'000
Employee benefit expenses	**39,249**	36,436
Share option expenses	**44,832**	43,158
Operating lease expenses in respect of buildings	**6,489**	2,721
Amortization and depreciation	**9,740**	9,654
Utilities and telephone expenses	**2,010**	1,895
Travelling expenses	**2,267**	2,528
Auditors' remuneration	**3,565**	2,950
Consulting expenses	**5,104**	683
Provision for impairment on receivables	**310,672**	198,225
Others	**32,588**	36,162
Total administrative expenses	**456,516**	334,412

The provision for impairment on receivables was mainly due to making of certain provision for advance payment to and rebates receivable from suppliers after taking into account of the financial position of upstream companies in the industry and collectability of the receivables. During the year, the Group gave up some traditional household appliances distribution rights, which led to a worsen collectability and a higher provision for impairment of advance payment to and rebates receivable from suppliers accordingly.

Finance costs – net

During the year, the Group's net finance costs was approximately RMB42.3 million, representing a slight increase from approximately RMB39.4 million of net finance costs for 2015.

Share of loss of a joint venture

During the year, the share of loss of a joint venture amounting to RMB1.1 million (2015: RMB14.9 million) was share of loss of Huiyin Real Estate, which had became a joint venture because of a co-operation agreement signed by the Group and Shanghai Coastal Weiying Equity Investment Fund Management Co., Ltd. ("Weiying") on 27 January 2014 to jointly control the legal and financial operations of Huiyin Real Estate to develop the land parcel owned by Huiyin Real Estate. On 27 January 2016, the co-operation agreement was terminated and the assets, liabilities and financial results of Huiyin Real Estate had been consolidated in the financial statement of the Group since then. Before the termination of the co-operation agreement, the Group recognized the share of profit and loss of Huiyin Real Estate by applying equity method, and the loss of Huiyin Real Estate was mainly due to the interest expense from borrowing owed to the Group, which became intra-group charges thereon.

On 16 December 2016, the Group entered into an equity transfer agreement, pursuant to which the Group sold and transferred all the equity interest held in Huiyin Real Estate. Upon completion of this transaction, Huiyin Real Estate ceased to be a subsidiary of the Group.

Share of (loss)/profit of an associate

During the year, the share of loss of an associate amounting to RMB211,000 (2015: profit of RMB442,000) was share of loss of Taixing Shengshi Huazhang Electronic Sales Co., Ltd. ("Huazhang"), which is an associate set up by Yangzhou Shengshi Xinxing Electronic Sales Co., Ltd. ("Yangzhou Shengshi"), an indirectly owned subsidiary of the Company, together with 2 third party companies on 29 September 2014. The Group recognizes the share of profit and loss of Huazhang by applying equity method.

Loss before income tax

During the year, the loss before income tax was approximately RMB702.2 million, while there was loss before income tax of approximately RMB437.9 million for 2015.

Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company for 2016 was approximately RMB722.8 million, while there was loss attributable to equity holders of approximately RMB398.6 million for 2015.

Investment in and loan to a joint venture

As at 31 December 2015, the Group recognized its interest in Huiyin Real Estate as an investment in joint venture which includes capital contributed of RMB50 million and share of loss of RMB44.3 million. Loan to Huiyin Real Estate as at 31 December 2015 includes principal amount of RMB201.4 million and interest receivable of RMB54.9 million. As announced by the Company on 27 January 2014, the Group entered into a co-operation agreement with Shanghai Coastal Weiying Equity Investment Fund Management Co., Ltd. ("Weiying") effective on 4 March 2014 in respect of the development of the land parcel acquired in 2011. Under the co-operation agreement, the Group and Weiying jointly controlled the legal and financial operations as well as other key relevant activities of Huiyin Real Estate and Huiyin Real Estate became a joint venture. On 27 January 2016, the co-operation agreement was terminated. All key relevant activities would no longer require unanimous consent of both Yangzhou Huiyin and Weiying since then. The assets, liabilities and financial results of Huiyin Real Estate had been consolidated in the accounts of the Group again as before the entering into the co-operation agreement. The Group had not recognized its interest in Huiyin Real Estate as an investment in joint venture since the termination of the co-operation agreement. And on 16 December 2016, the Group entered into an equity transfer agreement, pursuant to which all the equity interest held in Huiyin Real Estate was sold and transferred.

Cash and cash equivalents

As at 31 December 2016, the Group's cash and cash equivalents were approximately RMB159.1 million, representing an increase of 122.5% from approximately RMB71.5 million as at 31 December 2015.

Inventories

As at 31 December 2016, the Group's inventories amounted to approximately RMB228.5 million, representing a decrease from RMB293.9 million at the end of 2015, which was mainly due to the given-up of some household appliances distribution rights which had occupied major resources.

Prepayments, deposits and other receivables

As at 31 December 2016, prepayments, deposits and other receivables of the Group amounted to approximately RMB499.8 million, representing a decrease of 46.5% from approximately RMB934.4 million as at 31 December 2015, which is mainly due to the decrease of advance payments to and rebate receivables from suppliers as a result of given-up of distribution rights.

Trade and bills receivables

As at 31 December 2016, trade and bills receivables of the Group amounted to approximately RMB68.5 million, representing a decrease from approximately RMB83.6 million as at 31 December 2015, which was mainly due to the decrease of notes receivable.

Trade and bills payables

As at 31 December 2016, trade and bills payables of the Group amounted to approximately RMB850.9 million, representing a decrease from approximately RMB891.4 million as at 31 December 2015, which was mainly due to the decrease of notes payable.

Gearing ratio and the basis of calculation

As at 31 December 2016, gearing ratio of the Group was 48.1%, representing an increase from 41.0% as at 31 December 2015. The gearing ratio is equal to total borrowings divided by the sum of total equity and total borrowings.

Capital expenditure

During the year, capital expenditure of the Group amounted to approximately RMB20.7 million, representing a decrease from approximately RMB47.0 million for 2015.

Cash flows

During the year, net cash outflow from operating activities of the Group amounted to approximately RMB164.2 million, as compared to RMB186.8 million in 2015. The lower net cash outflow was mainly due to the decrease of prepayments, deposits and other receivables.

Net cash inflow from investing activities amounted to approximately RMB171.7 million, while there was net cash outflow from investing activities amounted to approximately RMB33,000 for 2015, which was mainly due to the cash acquired from disposal of a subsidiary.

Net cash inflow from financing activities amounted to approximately RMB80.4 million, as compared to approximately RMB232.7 million for 2015, which was mainly due to the decrease of net proceeds from issuance of ordinary shares. As disclosed in the Group's announcement dated 30 June 2016, the Group entered into subscription agreement with Baoshi (Tianjin) E-commerce Company Limited (寶世(天津)電子商務有限公司, the "Subscriber"), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Group has conditionally agreed to allot and issue an aggregate of 262,000,000 new shares at the subscription price of HK$0.80 per subscription share. The net proceeds from the subscription of approximately HK$209.3 million, has been utilized as to approximately HK$159.3 million for general working capital of the Group, which is mainly for purchasing merchandise, and approximately HK$50.0 million for development of the existing business of the Group, including development of the e-commerce and import merchandise business.

Capital structure

As at 31 December 2016, the Group's cash and bank balances were mainly held in Renminbi, and the Group's borrowings were denominated in Renminbi, Hong Kong dollar and in US dollar with floating or fixed interest rate.

As at 31 December 2016, equity attributable to shareholders of the Company amounted to approximately RMB314.3 million, compared to approximately RMB764.5 million as at 31 December 2015.

Liquidity and financial resources

During the year, the Group's working capital and capital expenditure were funded from cash on hand, bank borrowings and proceeds from placing of ordinary shares. As at 31 December 2016, the borrowings of the Group amounted to RMB312.4 million, representing a decrease from RMB539.1 million as at 31 December 2015.

Pledging of assets

As at 31 December 2016, the Group's pledged bank deposits amounted to RMB646.7 million, representing an increase from RMB603.0 million as at 31 December 2015. In addition, certain land use rights, buildings and investment properties with a total net book value of RMB165.28 million and merchandise held for resale amounted to RMB15.0 million had been pledged.

Contingent liabilities

As at 31 December 2016, the Group had no contingent liabilities which have not been properly accrued for except for certain unfounded legal claims and guarantees provided to the customers which the Group does not expect that it will incur any unexpected loss.

Capital commitments

As at 31 December 2016, the Group had no significant capital commitments.

Foreign currencies and treasury policy

The majority of the Group's income and expenses were denominated in Renminbi. During the year, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risk which mainly arise from US$ bank borrowings with a total amount of US$7,600,000, bonds payable with a total amount of HK$10,000,000 as at 31 December 2016. The Group does not have a foreign currency hedging policy. However, the directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting appropriate foreign currency hedging policy in the future.

Final dividend

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: Nil).

USE OF FUNDS RAISED FROM INITIAL PUBLIC OFFERING

On 25 March 2010, the shares of our Company were successfully listed on the Stock Exchange. Our initial public offering ("IPO") was well received by investors in both the international offering and the Hong Kong public offering. Net proceeds raised from the IPO were approximately HK$458.9 million (equivalent to approximately RMB403.5 million).

As stated in the prospectus of the Company dated 12 March 2010, we intended to use approximately HK$156.5 million (equivalent to approximately RMB137.9 million) for expansion of our retail network, approximately HK$203.2 million (equivalent to approximately RMB178.3 million) for potential acquisitions of household appliances and electronics retail enterprises in eastern China which target at the third and fourth-tier markets, approximately HK$55.0 million (equivalent to approximately RMB48.4 million) for expansion of our existing distribution and logistics centers in Jiangsu Province, approximately HK$5.0 million (equivalent to approximately RMB4.4 million) for improving our existing information and management systems, and approximately HK$39.2 million (equivalent to approximately RMB34.5 million) as our general working capital.

As at 31 December 2016, our use of net proceeds raised from IPO was as follows:

	Net proceeds from IPO	
	Available to utilise (RMB million)	**Utilised (up to 31 December 2016) (RMB million)**
Expansion of retail network	137.9	137.9
Acquisitions of household appliances and electronics retail enterprises	178.3	68.3
Expansion of distribution and logistics centers in Jiangsu Province	48.4	48.4
Improving information and management systems	4.4	4.4
General working capital	34.5	34.5
	403.5	293.5

EMPLOYMENT AND REMUNERATION POLICY

The Group adopts remuneration policies similar to its peers in the industry. The remuneration payable to our staff is fixed by reference to the prevailing market rates in the region. Our management receive a fixed sum of basic salary and a discretionary performance bonus after annual/monthly/quarterly assessments. The remuneration of our other employees comprises basic salary and an attractive sum of monthly performance bonuses. In compliance with the applicable statutory requirements in the PRC and existing requirements of the local government, our Group participates in different social welfare plans for our employees.

HUMAN RESOURCES

As at 31 December 2016, the Group had 1,138 employees, up 32.3% from 860 at the end of 2015.

OUTLOOK

In 2017, the global economy will continue to be challenging, retail business will face significant operational pressure and the domestic consumer market will face the change in growth pattern and structural integration. Demand on high-end products and import merchandise increased fast. With the technology development, E-commerce grows rapidly. Chinese government has released policies to vigorously promote O2O business. Rural commerce, community e-commerce as well as import e-commerce was becoming new growth drivers for the market. The Group is constantly taking advantage of its own advantages and taking the opportunities arising from industry consolidation, leveraging on its unique business model and its sales network and client resources, and is strategically poised to realize future growth and to become a leading community e-commerce and import merchandise direct selling operator in China. Household appliance is still an important part of our business. Other than the steady demand from first-time buyers, China's consumption of household appliances now mainly derives from the need for replacement and upgrade. The growing size of cities with the progress of China's urbanization, the increase in residential income in third and fourth-tier cities and the improvement in housing conditions will support the growth of demand for home appliances and bring new development opportunity for domestic household appliances market. In addition, the Group will also participate in export trade business to enlarge the sources of turnover and profit growth. The export trading of electronics and relevant parts will extend our existing traditional channels and optimize the supply chain management as the import and export businesses are complementary. Household appliances, e-commerce and import direct selling, as well as the new business will motivate the Group's performance in 2017.

In 2017, the Group will take innovative measures in three aspects — store management, brand building and human resources. The Group will expand its sales network in target markets to increase sales revenue, and to further increase its market share and solidify its market position through upgrading and integration of existing network. Another import merchandise experience base is going to be established in Shanghai city, upon which, we will enter into the first-tier city. This is of great significance to the Group's transformation. Furthermore, the Group will copy the successful model in other cities in Yangtze River Delta. Meanwhile, the Group will actively implement its brand marketing strategy, enhance its brand image (including further optimization of the Group's integrated online platform covering various aspects such as procurement, sales and customer services) and improve the Group's overall asset management efficiency, so as to deepen the Group's relationship with suppliers and customers. In addition, service-oriented and customer-focused, the Group plans to strengthen corporate culture, internal management and upgrade the development of "Huiyin Business School" in order to train more retail and e-commerce talents and provide customers with professional services.

The transformation of our Group to be a leader of smart community e-commerce platform and import merchandise direct selling industry in China has found its most suitable business model, and the road is promising. Looking ahead to the coming year, the Group will deploy its network resources according to the expansion plan and to develop a strategic alliance with its suppliers, to pursue the Group's leading position in the consumer markets. The Group will improve the interaction with community resources and provide creative service to customers, to further reinforce the awareness of the "Huiyin" and "Huiyin Lehu • Global Community" brand in target market through traditional business as well as e-commerce and import merchandise business. The integration and interplay between online and offline business will bring about more convenience to residents and promote our smart community life service strategy. Through these strategies, the Directors believe that the Group can achieve sustainable business expansion and fully improve its operational efficiency and profitability, thus creating better returns for its shareholders and investors.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to enhancing the corporate governance of the Group, and the Board reviews and updates all necessary measures in order to promote good corporate governance.

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2016, except for the following deviations.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

Since the establishment of the Company, Mr. Cao Kuanping has been the Chairman and Chief Executive Officer of the Company and that the functions of the Chairman and Chief Executive Officer in the Company's strategic planning and development process overlap. This constitutes a deviation from code provision A.2.1 of the CG Code. However, the Board considers that the Group has been operating well under the current arrangement, and thus it might not be beneficial to the Company and its shareholders as a whole to change the current arrangement and have separate individuals occupying the offices of Chairman and Chief Executive Officer given the current operating scale of the Group.

Under code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Cao Kuanping, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 30 May 2016 due to his other business commitments. He will use his best endeavours to attend the future annual general meetings of the Company. Mr. Wang Zhijin, an executive Director, acted as the Chairman of the 2016 annual general meeting.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Lo Kwong Shun Wilson and Mr. Zhou Shuiwen. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the CG Code issued by the Stock Exchange. The principal duties of the Audit Committee are to assist the Board in reviewing the internal audit function, financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the auditor's report thereon.

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS FOR ATTENDING AND VOTING AT THE ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Thursday, 25 May 2017 to Wednesday, 31 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 24 May 2017.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Wednesday, 31 May 2017, the notice of which will be published and dispatched to shareholders of the Company as soon as practicable in accordance with the Company's Articles of Association and the Listing Rules.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The 2016 Annual Report of the Company will be dispatched to shareholders of the Company and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hyjd.com in due course. This announcement can also be accessed on these websites.

By order of the Board
Huiyin Smart Community Co., Ltd.
Cao Kuanping
Chairman

Hong Kong, 24 March 2017

As at the date of this announcement, the executive Directors are Mr. Cao Kuanping, Mr. Mo Chihe, Mr. Mao Shanxin, Mr. Wang Zhijin and Mr. Lu Chaolin; and the independent non-executive Directors are Mr. Zhou Shuiwen, Mr. Tam Chun Chung and Mr. Lo Kwong Shun Wilson.