GOME 国美电器

Stock Code: 493

# Redefine
## Retail

Annual Report 2016

国美电器
Redefine
Retail

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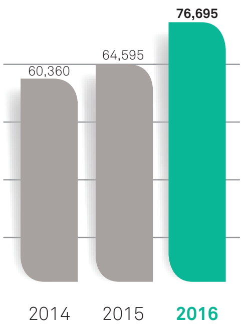
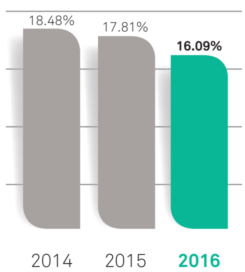
# GOME at a Glance

**GOME** is a leading Omni-Channel Retailer of home appliances and consumer electronic products in China. We provide the industry's leading consumer experience, embracing the most extensive range of products, delivered at the most competitive prices. We offer our suppliers a channel platform that creates optimum economies and efficiencies of scale.

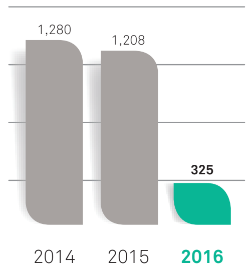
### Revenue
(RMB million)



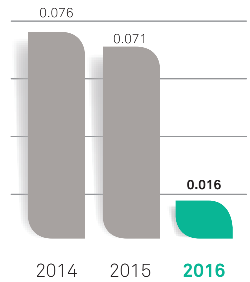

### Consolidated gross profit margin*




### Profit attributable to owners of the parent
(RMB million)




### Basic earnings per share
(RMB)




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

## Highlight

During the reporting period, the total GMV of the Group increased by approximately

**31.05%**

of which the GMV from e-commerce business increased by approximately

**110.09%**

Sales revenue of the Group was approximately

**RMB 76,695 million**

Increased by

**18.73%**

as compared with the corresponding period last year

Consolidated gross profit margin was approximately

**16.09%**

Profit attributable to owners of the parent was approximately

**RMB 325 million**

Basic earnings per share were

**RMB 1.6 fen**

The Board recommended a final dividend of

**HK 0.70 cent**

per ordinary share

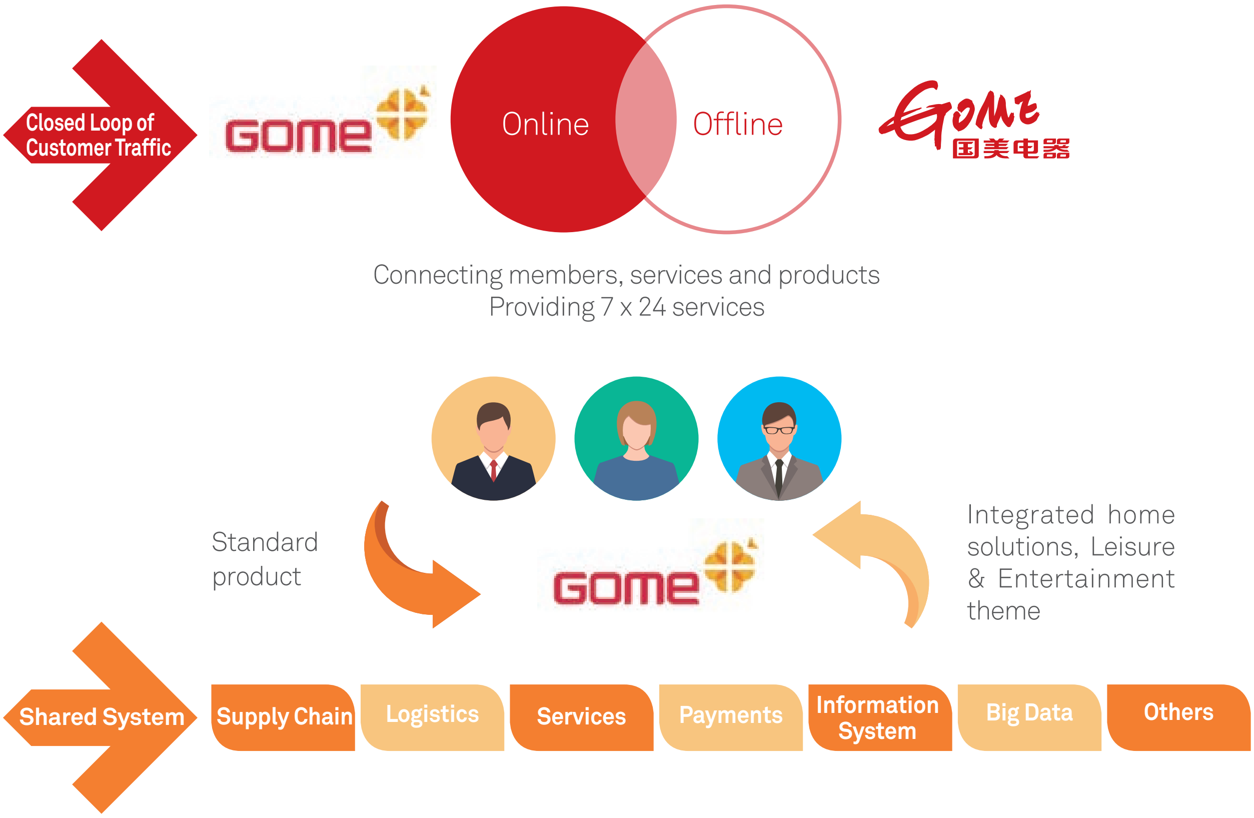
# Five Year Financial Summary

| | **Year ended 31 December 2016 *RMB'000*** | Year ended 31 December 2015 *RMB'000* | Year ended 31 December 2014 *RMB'000* | Year ended 31 December 2013 *RMB'000* | Year ended 31 December 2012 *RMB'000* |
|---|---|---|---|---|---|
| Revenue | **76,695,025** | 64,595,127 | 60,359,843 | 56,400,662 | 51,097,100 |
| Profit/(Loss) attributable to owners of the parent | **325,139** | 1,207,963 | 1,279,770 | 892,475 | (728,498) |
| Total assets | **61,802,129** | 41,587,785 | 44,076,673 | 39,323,985 | 37,712,723 |
| Total liabilities | **40,826,902** | 24,899,423 | 28,042,155 | 24,006,527 | 23,043,141 |
| Non-controlling interests | **(1,510,932)** | (1,137,587) | (871,398) | (609,796) | (394,766) |
| Net assets | **20,975,227** | 16,688,362 | 16,034,518 | 15,317,458 | 14,669,582 |

## BLUEPRINT OF GOME STRATEGY

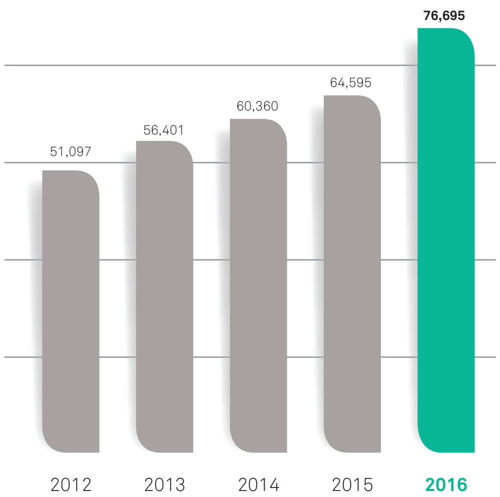
### GOME New Retail Ecosystem

By integrating online and offline resources through internet technology, GOME drives mutual customer acquisition – a key part of the GOME new retail eco-system, as well as promoting the development of retail technology.

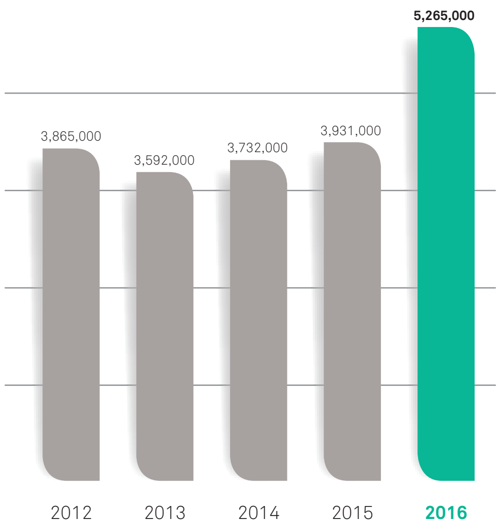


# Financial and Operational Highlights

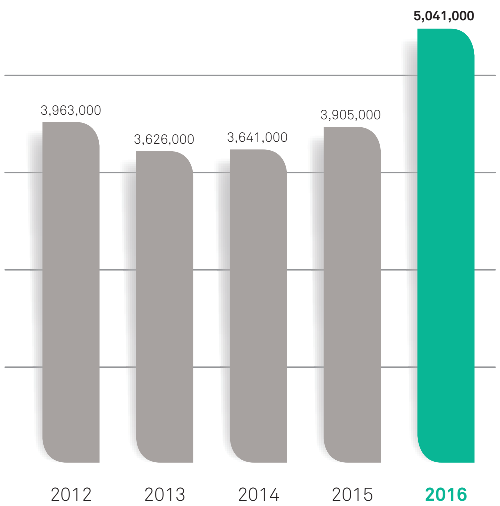
## REVENUE
(RMB million)



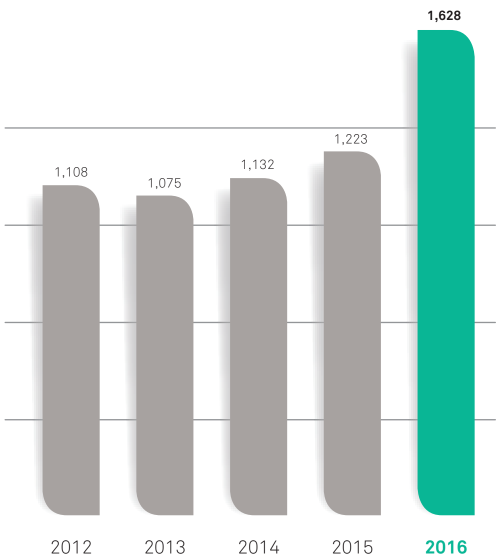

## TOTAL SALES AREA AT YEAR END
(sq.m.)




## WEIGHTED AVERAGE SALES AREA
(sq.m.)



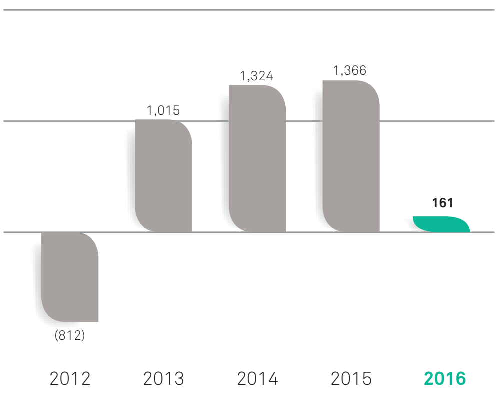

## NUMBER OF STORES AT YEAR END



## Financial and Operational Highlights

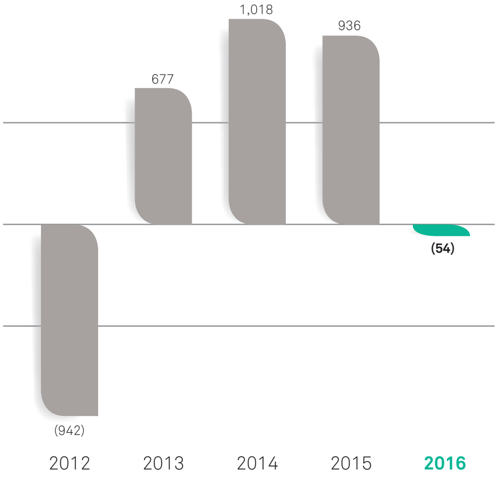
### PROFIT/(LOSS) BEFORE FINANCE (COSTS)/INCOME AND TAX

(RMB million)



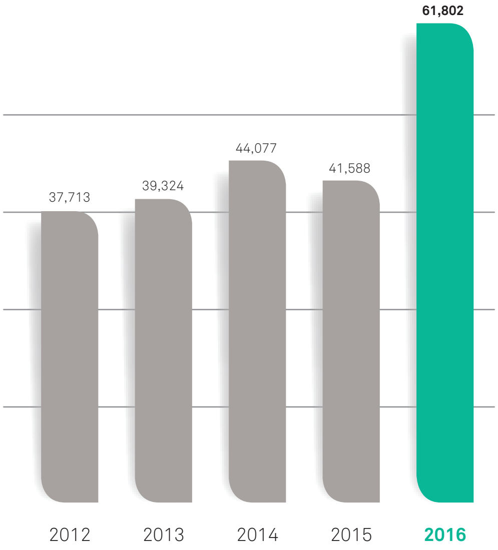

### (LOSS)/PROFIT FOR THE YEAR

(RMB million)



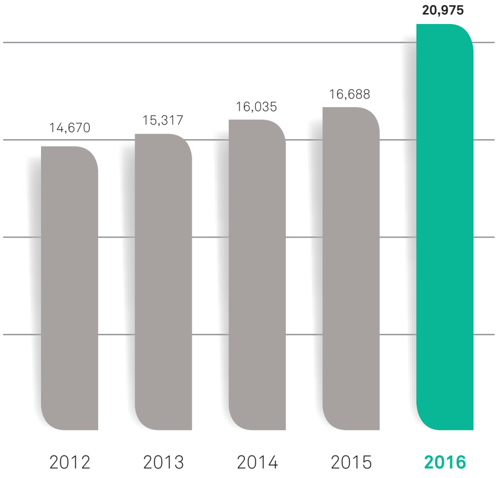

### TOTAL ASSETS

(RMB million)




### NET ASSETS

(RMB million)





As evolving consumption structures increasingly become the norm for consumers, GOME has been actively upgrading its retail model to further integrate its online and offline channels. Such integration – which includes products, membership, services, and 24*7 shopping opportunities, combined with multi-screen, multi-platform, and multi-channel marketing – forms the basis of GOME's new retail ecosystem.

# Chairman's Statement

In the future, retail will be a combination of sales from both online and physical stores, and will become more efficient as it is transformed by Internet technology. GOME believes that the application of technology to physical stores will transform the retail experience, enhance efficiency, as well as create infinite space for imagination and growth potential in the retail industry.

**ZHANG DA ZHONG** Chairman

## Dear Shareholders,

There is a Confucian saying: "At thirty, I had planted my feet firm upon ground". The age of thirty is a watershed moment, marking when a man should take on his responsibilities and become mature. The same can be applied to enterprises. However, a man grows to 30 years old simply through the passage of time, while an enterprise, to reach 30, must face countless choices, challenges, and competition.

On 1 January 1987, GOME opened a small store with only 100 square meters of space located at No. 420 Qianmen Zhushikou Street in Beijing, and gradually expanded, opening more stores to all parts of the country. From 2004 to 2010, we merged with China Paradise, Dazhong, and a number of other regional chain enterprises, reducing our market expanding costs and increasing our pace of development. In that time, we transformed our home appliance retail business – from a traditional general merchandise model to a specialized chain, leading China's retail industry into the era of large-scale chains.

Now in the Internet era, as a brick-and-mortar retailer and a giant enterprise, GOME faces new challenges and pressures of transformation. However during this process, instead of being confused, we are aware of the importance of returning to the basics of retail – transitioning from an "appliance retailer" model, to that of a supplier of comprehensive products and services.

30 years ago, we opened the chapter of major retail in China; 30 years later, we hope to redefine retail. With the integration of online and offline channels, and increasingly better technology at our disposal, the resulting new retail model will become key to the future of our industry.

At the heart of GOME's "Redefining Retail" concept is a focus on the widespread connections between people, between people and products, between people and enterprises, and between enterprises and products. As a result, stronger social connections are built, supply and demand are effectively met, and GOME is able to promote deeper value for consumers and a reconstruction of industry value. We aim to integrate both online and offline channels to create an ecosystem of social and business connections that puts customers first, products first, platforms first, services first, sharing first, and the customer experience first. This will form a new retail model that maximizes customer interest.

The redefining retail concept is guided by the principle of "Customers First." This means customers can participate in every stage of a product's life cycle, putting forward their needs and recommendations during product production, use, and ultimately, recycling.

"Products First" is the concept of protection for the new retail model. In the post-Internet era, the core of retail enterprises' competitiveness has changed from the ability to "sell" to the ability to "innovate", with innovation becoming paramount to success. "Products First" means that all goods and services on GOME's platform are exactly what customers need and will buy. Therefore, we are building a community platform to discover customers' needs, improve the precision between supply and demand, and lay the foundation for customization with low cost and high efficiency.

"Platforms First" is the vehicle to realise new retail. The Group is leveraging on the physical stores as its offline customer portal and the Internet platform as its online customer portal to enjoy their mutual benefits, sharing refined resources and providing excellent services to the customers in order to create value for the customers.

"Services First" is an inevitable extension of the new retail and the professionalization, standardization, and customization of services are the prerequisite of the new retail. As such, we launched "GOME House Manager" to keep track of customers' after-sale needs with the help of big data. We are now able to efficiently connect members to stores, logistics, and after-sale resources, with the ability to offer services including repair, maintenance, cleaning, replacement, and recycling throughout the life cycle of an appliance.

With the "Sharing First" concept, we are building a new community and economy-directed consumption ecosystem, connecting customers with valuable portals. The structure will smooth our relationships with customers through sharing and in turn create more value for them.

"Customer Experience First" is the ultimate goal of the new retail concept. During our interactions with each individual customer, GOME pulls preference data, which it then analyzes and uses to promote upstream industrial upgrades. By doing this, GOME's revitalized retail ecosystem puts customers at the core. In the new-Internet era, shopping experience is becoming a powerful tool to attract and retain customers and to enhance competitive advantages.

Online and offline integration is the space where we can best achieve the above-mentioned "Firsts." Data is one of the greatest derivative values of this integration, which is not valuable simply for being "big," but also its use in analyzing and generating new and powerful insight. By analyzing user behavior data both online and offline, GOME will be able to optimize its goods and services, and promote further development of the retail ecosystem.

When GOME originally focused on channels, we paid attention to the quality of our goods, unified services, and large supply chains. Today, we emphasize our six "Firsts" concepts, and the integration of online and offline. No matter what the strategy or process, our goals are always to serve customers and create value.

To conclude, I would like to express my sincere respect and appreciation to all my colleagues at GOME for your tireless efforts, and my gratitude to the greater community for supporting GOME through the years. We will continue to devote ourselves to balancing the benefit of shareholders, employees, and customers, and pursuing long-term sustainable development. I have confidence in leading GOME in its latest transformation, as we continue to grow, overcome challenges, and make our vision for new retail a reality.

**Zhang Da Zhong**
*Chairman*

# Management Discussion and Analysis

The new retail transformation of GOME is the combination of strong supply chains, new retail trends and scenarios, seamless integration between online and offline, and technological proficiency. This includes segmented operations in physical stores, big data analysis, and differentiated after-sales capabilities that together enhance competitiveness in the home appliance market and provide customers with an all-inclusive service and product ecosystem.

## OVERVIEW

For the year ended 31 December 2016, GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") launched the strategic goal of "Total Retail Community Building with Omni-channel, New Scenario and Strong Linkage", and devoted effective effort in pursuing the transformation and development of the retail industry. Due to the impact of the temporary closure of some stores for reconstruction and renovation work in the first half of the year, the Group's profit for the year experienced a decrease as compared with the corresponding period in the previous year, but has a phenomenal improvement in the second half of the year. The improvement in the performance results of the stores after the renovation and the increasing number of the customer demonstrated the validity and feasibility of a new business strategy, providing the Group with greater confidence in the future performance growth.

On 31 March 2016, the Group announced the completion of the major and connected transaction in relation to the acquisition of Artway Development Limited and its subsidiaries (the "Target Group"). With all the conditions of the acquisition satisfied, the Target Group's financials were officially consolidated with the Group's since 1 April 2016.

During the reporting period, the Group's online-offline total gross merchandise volume ("GMV") increased 31.05% year-on-year, with a 110.09% growth in e-commerce. The Group recorded sales revenue of approximately RMB76,695 million, representing an increase of 18.73% as compared with RMB64,595 million for the corresponding period last year. Online sales rose 58.75% to approximately RMB10,697 million, and comparable store sales declined by 9.42%. As a result of the transformation of the stores in the first-tier market and the continuing high-speed growth in the e-commerce business, the consolidated gross profit margin was lowered by 1.72 percentage points, from 17.81% in the corresponding period last year to approximately 16.09%. The Group's operating expense ratio rose from 15.70% in the corresponding period last year to approximately 15.88%, representing an increase of 0.18 percentage point over the period.

Overall, the Group's profit attributable to owners of the parent was approximately RMB325 million, representing a 73.10% decrease as compared with RMB1,208 million for the corresponding period last year. In addition, through the issue of corporate bonds with an aggregate nominal value of RMB9,000 million in the PRC during the year, the Group's cash and cash equivalents increased significantly to approximately RMB13,237 million as at 31 December 2016 from RMB7,438 million as at 31 December 2015.

The management believes the Group's investments and constructive steps taken in 2016 will speed up its flow volume and conversion rate, which in return, bring stronger earnings growth in the future.


## Management Discussion and Analysis

### BUSINESS ENVIRONMENT

During the reporting period, the global economic recovery remained slow and unbalanced, and international trade and investments were sluggish, leading to insufficient impetus for growth. The global economy remained in a "low-growth trap", with productivity decreased and innovation hindered by rising trade protectionism, intensifying reverse globalization, and political and economic difficulties in the Eurozone. (Referenced to Renmin Ribao)

Domestically, China's GDP grew by 6.7%, which was impressive in terms of its huge amount despite it being slightly lower than in previous years. The industry's overall operations remained stable during the reporting period, due to the rapid recovery of prices for industrial products, accelerated recovery of the real economy, significantly improved business efficiency and increased export growth rate. (Referenced to the results announced by National Bureau of Statistics)

With regards to the industry environment, the positive results of the retail store transformations began to show in late 2016. E-commerce sales growth slowed as traffic began to return to the physical stores. In recent years, the sudden rise and fall of so many online enterprises has broken the faith of many Internet businesses. During the reporting period, China's e-commerce enterprises started to pick up its expansion into the offline businesses as branded physical stores regained attention in the retail industry.

### DEVELOPMENT POTENTIAL IN THE FUTURE MARKET

On 11 November 2016, the day of the e-commerce festival, the Chinese government released a circular regarding the promotion and transformation of the offline retail sector issued by the State Council of People's Republic of China (the "Circular"), highlighting the importance of entity retail in the protection of employment and prosperity of the market. The Circular proposed seven policies, from improving industry environment and enhancing Government supports prospective, to optimize the retail industry, demonstrating the Chinese Government's support for the entity retail business transformation.

During the reporting period, the Group highlighted its focus on the "new retail", which is the combination of "online + offline + logistics". The advantages of the offline retail's logistic services and customer experiences have been emphasized in the remote areas (areas away from cities and communities) and have influenced the strategy planning of the retail market players. The future will have no doubt be the era of "new retail." The development of entity retailing will be driven by triple forces such as support from the Government, e-commerce partnerships and self-innovation of physical stores.

## BUSINESS REVIEW

### Omni-channel Interface Platform

*(1)* ***New Experiential Retail Stores***

The Group rolled out new experiential stores, with layouts and product displays depicting scenes of modern family life, as part of GOME's evolution from a home appliance retailer to an inspirational lifestyle brand which provides solutions. Features of the new stores include interactive entertaining displays in e-sports and online games, net cafes and restaurants, and even hands-on baking classes. The development of experiential stores are part of the Group's efforts to attract and cultivate the younger generation, create new platforms for consumption and to increase sales per unit area.

The Group has transformed 43 of its stores to experiential stores in the first half of 2016, and 58 stores in the second half of the year, for a total of 101 experiential stores. 80 of the new renovated stores are in the first-tier market, and 21 are in the second-tier market. The transformed stores have enhanced significantly in traffic and sales volumes.

*(2)* ***Optimizing Store Network***

During the reporting period, the Group continued to set up large, core stores in the first-tier market and took a more cautious approach to open small and community stores in order to consolidate market share. For stores within the same city, GOME replaced underperforming stores with low cost and high sales new stores in more promising areas. GOME also launched center stores in cities, counties and other areas in the second-tier market which are connected to our supply, logistics and management chains.

The Group opened 117 new stores during year 2016, of which 58 stores were in the first-tier market and 59 stores were in the second-tier market; closed 268 stores, of which 142 stores were in the first-tier market and 126 stores were in the second-tier market. The net decrease for the year was 151 stores. The total number of stores by the end of the year reached 1,628.

The Group's rental to sales ratio was 5.37%, a slight increase as compared with 5.18% for the corresponding period in 2015. The Group rented a total of 1,589 stores, among which the leases of 236, 175 and 138 stores will be expiring in 2017, 2018 and 2019, respectively. During the reporting period, the Group had 39 self-owned stores with a total area of approximately 280,000 sq.m. accounting for approximately 5.32% of the total operating areas of the Group.

***(3) Greater Customer Connections: Linking GOME to Consumers***

*"GOME TOGO" Micro Shops*

To further improve our customer experience and increase orders, we have been expanding the products and brands being sold in our micro shops. To date, many high quality brands have launched in our micro stores, including Ninghuafu, COFCO, 3M Tianjin Rongtong, and Pingyao Beef. Their products include electrical appliances, as well as food, grain and pantry items and cosmetics items, and more. And GOME's micro shops have been receiving increased attention ever since. In the future, we will continue to promote through multiple channels and bring more of the world's best products to consumers, and thus create more value for consumers. This will allow us to increase turnover, and further build GOME's retail ecosystem.

*After-sale Services O2O Platform -"GOME House Manager"*

During the reporting period, GOME House Manager launched a "home" centriced after-sales family services platform and completed its related business set-up and network building. The Group will use home appliances and mobile device services as an entry point, and will introduce more on home products and services via installation, interior design and decoration, and other home related services. The platform has grown to serve more than 7 million users in a coverage area across more than 300 cities since April 2016. Additionally, GOME will introduce new services, which is expected to be finished in the first half of 2017. The Group will continue to expand its service coverage and work towards an all-round family service chain.

*Internal Sales Campaigns*

In 2016, the Group organized three large scale "Super Welfare Day" activities that attracted several million customers and generated sales of over RMB14.7 billion in aggregate. The resulting customer traffic to GOME's offline stores helped the Group to improve and refine customer experiences, and reinforced GOME's brand as a provider of "genuine, licensed products at low prices." Instead of relying on traditional advertising campaigns to boost sales, the Group used big data to derive more precise insights, exploring its advantages in supply chain and operational capabilities, and using social network to offer admission tickets to customers with real needs for customers to enjoy a special staff discount.

***(4) Accelerating the Development of GOME's E-commerce Business***

During the reporting period, GOME's online store, "GOME-on-line," achieved strong development through the repositioning of its branding "There are more than home appliance offering on GOME-on-line" as well as its foray into the new "family consumption ecological chain" model. Development was also driven by GOME-on-line's improvement in three key areas, namely multi-type product layouts, customers' online experience, and improving shopping security.

*Success in Multi-typed Product Layouts*

To further enhance its product categories, GOME-on-line partnered with Feiniu.com of RT Mart to link with over 1,600 brands and nearly 100 thousand new grocery products. Through the partnership, GOME-on-line's business now benefits from low-priced, high frequency grocery category in addition to its high-priced, low frequency home appliance category. In the fresh category, GOME-on-line enlisted quality resources from benlai.com, using hairy crabs from Yangcheng Lake as a pilot to explore the "direct from farm" concept and family consumption ecological chain model.

*Creating A New Shopping Experience*

GOME is applying new technologies to strengthen the retail experience and to provide customers with an interactive shopping platform to meet their needs. The first phase of GOME's Customer to Manufacturer (C2M) platform will offer tailor-made clothing. Additionally, reverse customization will be offered through in-house designers and crowd funding orders. GOME-on-line is also launching a Virtual Reality (VR) enabled interior design and decoration platform, the first of its kind, and a self-owned live broadcast platform. The interactive broadcasts in different scenarios would get us closer to our customers.

*Security Services Upgrade*

In order to guarantee the online security of customers' personal information, GOME-on-line rolled out the new, proprietary "Pangu" system to encrypt users' sensitive information. GOME has also collaborated with top security developers including 360 Security, for regular comprehensive testing and monitoring, and to jointly build an enhanced information security system.

During the reporting period, the total GMV (including transaction amount from the marketplace) of the e-commerce business of the Group increased by approximately 110.09% as compared with the same period last year.

Going forward, the Group's e-commerce business will focus more on the "social + business + sharing" model, enhancing the integration of online and offline business, in order to lay the foundation of the new retail ecosystem.

# The Group's
## nationwide retail network

As at 31 December 2016

**On 31 December 2016,** the total number of stores operating under the Group reached 1,628 and spanned 428 large- and medium-sized cities.

The Group's total Number of Stores as at 31 December 2016:

| Flagship stores | Standard stores | Specialized stores | Total |
|---|---|---|---|
| 362 | 501 | 765 | 1,628 |

## Development of Store Network

| | Group |
|---|---|
| As of 31 Dec 2015 | 1,223 |
| Number of stores newly opened | 79 |
| Number of stores closed | (175) |
| As of 31 Dec 2016 | 1,127 |
| | **Target Group**[(1)] |
| As of 31 Mar 2016 | 556 |
| Number of stores newly opened | 38 |
| Number of stores closed | (93) |
| As of 31 Dec 2016 | 501 |
| **Enlarged Group Total** | **1,628** |

| | Group | | | | Target Group | Enlarged Group |
|---|---|---|---|---|---|---|
| | GOME | China Paradise | Dazhong | CellStar | GOME | Total |
| Flagship stores | 198 | 36 | 25 | – | 103 | 362 |
| Standard stores | 306 | 39 | 17 | – | 139 | 501 |
| Specialized stores | 395 | 59 | 3 | 49 | 259 | 765 |
| **Total** | **899** | **134** | **45** | **49** | **501** | **1,628** |
| Among them: First-tier market | 470 | 90 | 37 | 39 | 255 | 891 |
| Second-tier market | 429 | 44 | 8 | 10 | 246 | 737 |
| Net increase/(decrease) in store number | (66) | (23) | (6) | (1) | (55) | (151) |
| Number of stores opened | 66 | 6 | 1 | 6 | 38 | 117 |
| Among them: First-tier market | 31 | 3 | – | 6 | 18 | 58 |
| Second-tier market | 35 | 3 | 1 | – | 20 | 59 |
| Number of cities accessed | 270 | 60 | 1 | 6 | 167 | 428 |
| Among them: First-tier cities | 21 | 9 | 1 | 1 | 15 | 38 |
| Second-tier cities | 249 | 51 | – | 5 | 152 | 390 |
| Number of cities newly assessed | 14 | – | – | – | 3 | 17 |

*Note:*

1. Target Group: Artway Development Limited and its subsidiaries.

## LIST OF STORES

| Region | Group Flagship stores | Group Standard stores | Group Specialized stores | Group Total |
|---|---|---|---|---|
| Beijing | 44 | 28 | 3 | 75 |
| Shanghai | 27 | 9 | 14 | 50 |
| Tianjin | 15 | 13 | 5 | 33 |
| Chengdu | 17 | 32 | 18 | 67 |
| Chongqing | 13 | 18 | 24 | 55 |
| Xi'an | 17 | 20 | 67 | 104 |
| Shenyang | 12 | 11 | 11 | 34 |
| Qingdao | 12 | 9 | 16 | 37 |
| Jinan | 10 | 15 | 16 | 41 |
| Shenzhen | 18 | 23 | 31 | 72 |
| Dongguan | – | 11 | 5 | 16 |
| Guangzhou | 15 | 32 | 50 | 97 |
| Foshan | 6 | 11 | 16 | 33 |
| Wuhan | 7 | 23 | 35 | 65 |
| Kunming | 5 | 7 | 21 | 33 |
| Fuzhou | 6 | 15 | 22 | 43 |
| Xiamen | 4 | 10 | 27 | 41 |
| Henan | 6 | 21 | 20 | 47 |
| Nanjing | 4 | 16 | 16 | 36 |
| Wuxi | 1 | 3 | 5 | 9 |
| Changzhou | 2 | 7 | 1 | 10 |
| Suzhou | 4 | 6 | 8 | 18 |
| Hefei | 4 | 7 | 6 | 17 |
| Xuzhou | 1 | 4 | 13 | 18 |
| Tangshan | 3 | – | 3 | 6 |
| Lanzhou | 5 | 5 | 10 | 20 |
| Wenzhou | – | 1 | 9 | 10 |
| Jiangxi | 1 | 5 | 34 | 40 |
| **Total** | 259 | 362 | 506 | 1,127 |

| Region | Target Group Flagship stores | Target Group Standard stores | Target Group Specialized stores | Target Group Total |
|---|---|---|---|---|
| Anshan | 2 | 2 | – | 4 |
| Dalian | 7 | 10 | 11 | 28 |
| Guangxi | 4 | 7 | 25 | 36 |
| Guizhou | 2 | 4 | 10 | 16 |
| Hebei | 5 | 5 | 12 | 22 |
| Henan | 5 | 17 | 29 | 51 |
| Heilongjiang | 11 | 5 | 16 | 32 |
| Hunan | 4 | 9 | 17 | 30 |
| Jilin | 4 | 2 | 4 | 10 |
| Jiangxi | 3 | 5 | 19 | 27 |
| Nantong | - | 2 | 6 | 8 |
| Inner Mongolia | 4 | 6 | 9 | 19 |
| Ningbo | 2 | 6 | 21 | 29 |
| Xiamen | 1 | 5 | 3 | 9 |
| Shanxi | 7 | 12 | 14 | 33 |
| Shanghai | 22 | 14 | 4 | 40 |
| Wuxi | 3 | 3 | – | 6 |
| Xi'an | 1 | 2 | 2 | 5 |
| Xinjiang | 6 | 15 | 12 | 33 |
| Changchun | – | 1 | 9 | 10 |
| Zhejiang | 10 | 7 | 36 | 53 |
| **Total** | 103 | 139 | 259 | 501 |
| **Enlarged Group Total** | 362 | 501 | 765 | 1,628 |

***(5) Cross-border E-commerce***

In 2016, the Group continued its overseas business expansion through its international trading company. In addition to the Ningbo bonded warehouse, the international trading company added a Guangzhou bonded warehouse, and new overseas warehouses in Japan, Australia, and etc. The Group also expanded its third-party agent business, and made a number of investments to replenish its product categories. By leveraging its overseas joint companies' procurement capabilities, the Group was able to expand the number of its quality products. One such example was the Group's strategic partnership with Kirindo, a Japanese drug store chain, through which the Group introduced a large number of high quality products. The "GOME Gastronome Project," registered in Australia, allowed GOME to import quality dairy and beef products to China. And through the Group's strategic partnership with COFCO Europe, and suppliers in Germany, GOME became the sole distributor for the German IMPULS cabinet in China – setting up an experiential shop in the Beijing Dazhong CCTV store. The Group also plans to expand into the Australian market in the future, starting with a small home appliances export business that would leverage GOME's domestic home appliances procurement advantages.

**Open Supply Chain Platform**

The Group's open supply chain platform was further developed in 2016 to offer a wider range of quality goods both online and offline, and to provide customers with a more pleasant shopping experience. During the reporting period, the Group's several large-scale, nationwide sales campaigns were fully supported by the strong supply chain.

***(1) Upgrading The Supply Chain***

In 2016, the Group focused on the procurement and sale of middle to high end goods. The strategy targeted new products from key suppliers, and rapid distribution of those goods to customer side through underwriting, customization, a one-step -pricing process, and differentiation to enable the fastest transactions possible. In 2016, the Group also began selling overall solutions for households, among others, including a family central water treatment system, HVAC system, and whole kitchen appliance system. The goal behind the supply chain upgrades was to transform the Group from a traditional electrical appliance retailer to a provider of overall solutions for households.

## Management Discussion and Analysis

### *(2) Enhancing Supply Chain Efficiency*

To improve its supply chain efficiency, the Group focused on promoting differentiated goods and brands to increase sales of high margin products, leading to higher yields. In addition, GOME is introducing more products to both online and offline, providing more choices and a better shopping experience for customers in order to build a total retail ecosystem.

### *(3) Optimizing Logistics and Delivery Services*

During the reporting period, the Group optimized its logistics system network to enhance customer shopping experiences and further build out its new retail platform.

*Optimizing the Network Node*

The Group's logistics system covered 2,252 network hubs with a transport capacity of more than 15,000 self-owned and contracted vehicles. The hubs included 21 large central warehouses, 225 city warehouses, 206 transfer warehouses, and over 1,600 store warehouses. This formed an effective nationwide three-level warehouse network that based on regional transport, urban distribution, and end delivery. The operational area covered more than 700 cities, 2,800 counties, and 45,000 towns, making the system the most balanced domestic logistics platform for large and medium-sized products.

*Improving Customer Experience*

With the support of the self-developed Logistics Management Information System (LMIS), the logistics system efficiently managed the operation of goods and satisfied the "163" service standard – which means response to demands within 1 hour, free custody for 60 days after sales, delivery on demand throughout 365 days of the year (7*24 hours), and a constant focus on creating a better customer service experience.


*Building the Logistics Eco-platform*

Catering to the needs of customers, the Group's logistics system is applying its integrated services of "one stop service of delivery and installation" to the entire product category. This has so far provided integrated logistics services like transportation, storage, delivery, and installation for clients such as Xiaomi and Damiele, and more. The Group is also focused on building an urban logistics operation system to optimize and upgrade its inner-city supply chain to serve its customers, creating a one-stop logistics eco-platform for millions of clients.

**(4) *Enhancing After-sales Service Quality***

During the reporting period, the Group's after-sales service company worked to improve customer satisfaction and growth of the business. It promoted the standardization and all-around development of the after-sales market for home appliances.

As for managing third-party service providers, the Group's after-sales service company published strict guidelines for service providers, strengthened providers' service quality through trainings, and adopted a 360 degree assessment system such as ranking and customer questionnaires to assess service quality. The assessment and management of third-party service providers has ensured customer enquiries can be handle properly within a week.

**(5) *Strengthening the Information System***

During the reporting period, the Group's information center carried out initiatives such as decoupling, Internet connectivity, cloud computing and mobilization. This helped transform the Group's information technology department from an operation and maintenance-focused team into a flexible and agile system of technology research, development, and innovation. It strived to create an "Omni-channel, New scenario, Strong linkage" industry benchmark. It has so far enhanced the customer service experience and continuously met customers' needs despite the traditional limitations of retail industry.

*New Experience Projects*

For the execution of the Group's new "Total Retail Community Building with Omni-channel, New Scenario, Strong Linkage" strategy, the Group's business and information department experimented and collected data from different scenarios in different provinces in order to create the best shopping experiences nationwide and to break through traditional industry formats. At present in Beijing area, the leading products are the kitchen baking and gaming experiencing systems; in southern China, cinema and VR experiencing systems are being built; in East China, which includes Shanghai, Jiangsu, and Zhejiang, the focus is on home decoration and furniture experiencing systems.

*GOME Eco-members Unified Login Project*

The Group has a number of subsidiaries, each used to have an independent platform system. The Eco-members Unified Login Project solves the situation where users cannot share login data and status, consolidating basic user information on Internet-enabled companies in GOME. Now, after registered as a user of one platform, no more registration is needed in the other platforms of GOME, providing GOME users with comprehensive services and customer experience. This helps enhance the Company's operational capacity and removes roadblocks to further development.

## CORPORATE GOVERNANCE

The Group strives to continuously improve its corporate governance. As at 31 December 2016, the Board comprised 1 executive director, 3 non-executive directors and 4 independent non-executive directors. This Board structure complies with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") stipulating that at least one third of the board of directors should be independent directors to ensure the independence of the Board. Therefore, shareholder opinions are thoroughly deliberated by the Board in a constructive manner before it reaches a consensus.

On 31 March 2016, the nomination committee of the Company was reorganized after the completion of the acquisition of the Target Group, such that its members would consist only of non-executive directors (who were not nominated by the Company's controlling shareholder or his associates) and independent non-executive directors of the Company. The reorganisation of the nomination committee is part of the Group's continued effort in enhancing the corporate governance of the Group.

The Group has adopted its corporate governance policy in accordance with the code provisions of the new corporate governance code. The Group has implemented all the requirements under the code provisions to further enhance its corporate governance.

## CONSTRUCTION OF CORPORATE CULTURE

GOME's corporate philosophy and culture are grounded in the principle of honesty. In 2016 the Group focused on promoting cultural innovation and organizational vitality. GOME opened a fast track for internal innovations and provided resources to support innovative projects. The Group rewarded those projects that generated value. GOME also encouraged its staff through online and offline communication and activities. Additionally, the Group spent time elaborating its culture of honesty for today's modern era so that it would better integrate with its staff's thinking and behaviors.

## HUMAN RESOURCES

During the reporting period, the Group's training center, in accordance to the corporate strategy, helped to improve organizational performance, strengthened organizational capacity, and trained personnel at key levels.

In view of the shortage of mid-level management staff, the Group fostered talents with special training programs and dispatched trainees to various regional branches. In addition to the Group's existing "Golden Eagle Reservoir Training" and "Workplace Acceleration Plan," it also launched the "GOME Finance School," designed to foster outstanding branch finance management personnel. After enrollment, trainees received all-arounded theoretical and practical training, tutored by high performing managers from the finance center at headquarters, as well as outstanding store managers. Since the establishment of the GOME Finance School one year ago, it has trained many mid-level management staff to fill up the key financial positions in the branches.

In order to meet the Group's strategic needs for new scene stores, the training center's "Navigator Plan" provided support for super-store managers to help them improve their operational skills, and offered "Reserve Store Manager Training" for existing store managers and reserve store managers. In addition, the training center also ran a social community programme called, "GOME: Winning by the performance." to share expertise, skills, and experience in front-line operation by those very experienced staff, in order to improve the front-line operational capacity.

## FINANCIAL REVIEW

The financial information disclosed below includes the data of the Target Group from 1 April 2016, but does not include the figures of the Target Group from January to December 2015 and from January to March 2016. Since the acquisition of Target Group was completed on 31 March 2016, the financial information of the Target Group has been consolidated with the Group starting from 1 April 2016.

### Revenue

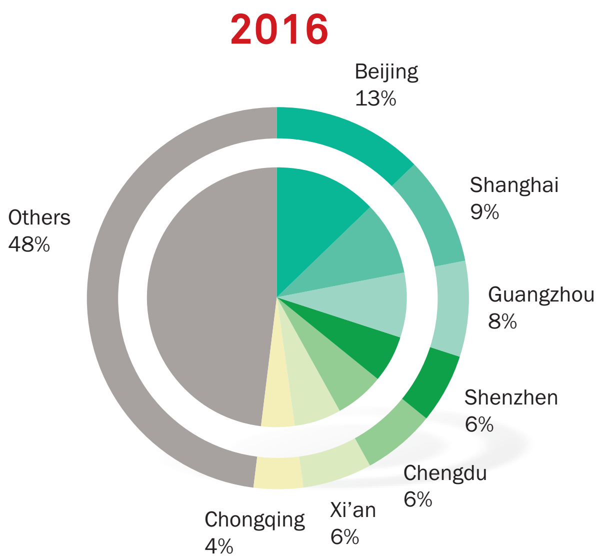
During the reporting period, the Group's revenue was approximately RMB76,695 million, up 18.73% from RMB64,595 million in 2015. The Group's weighted average sales area was approximately 5,041,000 sq.m. and the revenue per sq.m. was approximately RMB15,214, decreased by 8.03% as compared with RMB16,542 for the corresponding period in 2015.

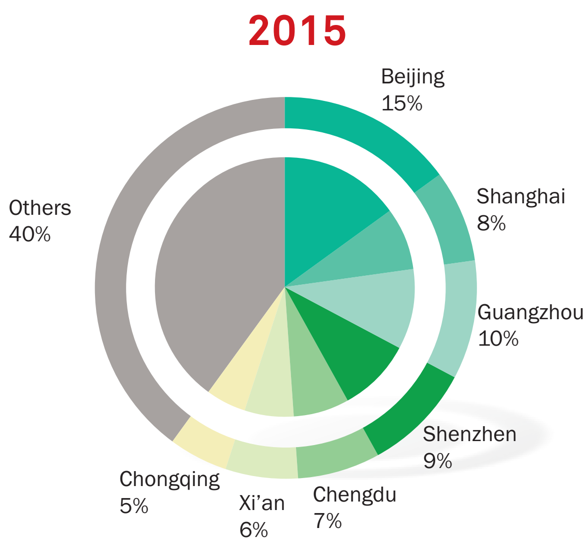
During the reporting period, aggregate sales of 888 comparable stores of the Group was approximately RMB45,791 million, down 9.42% from RMB50,554 million for the corresponding period in 2015. Sales revenue from the four regions of Beijing, Shanghai, Guangzhou and Shenzhen accounted for approximately 36% of the total revenue, as compared to 42% for the corresponding period last year, representing an increase in revenue contributed from the second-tier market.

### Cost of sales and gross profit

Cost of sales of the Group was approximately RMB66,318 million in the reporting period, accounted for 86.47% of the revenue, which is close to 85.27% for the corresponding period in 2015. Gross profit was approximately RMB10,377 million, up 9.08% from RMB9,513 million in the previous year. The gross profit margin was 13.53%, decreased by 1.2 percentage points as compared with 14.73% for the corresponding period last year.

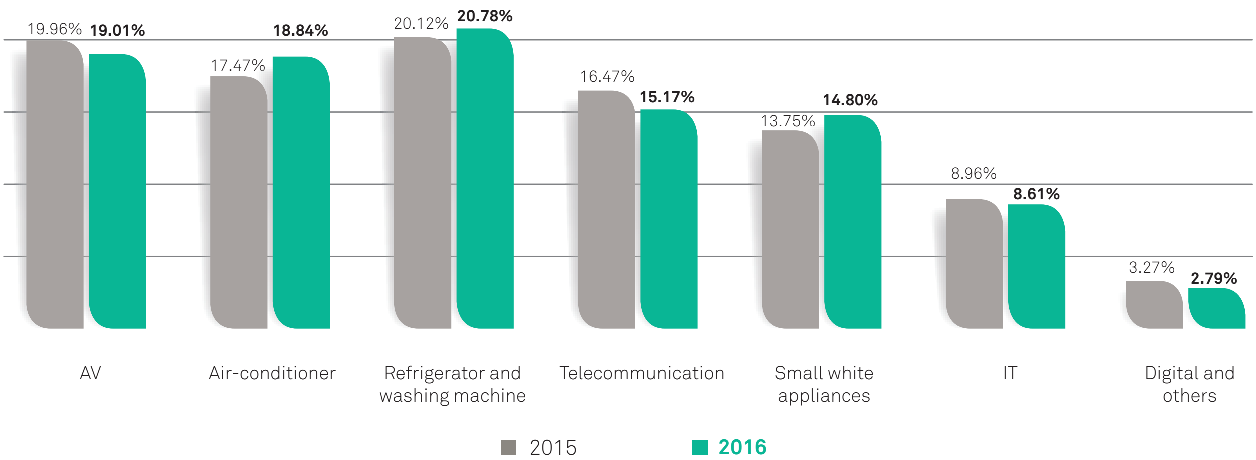
## SALES REVENUE OF THE GROUP BY REGION:



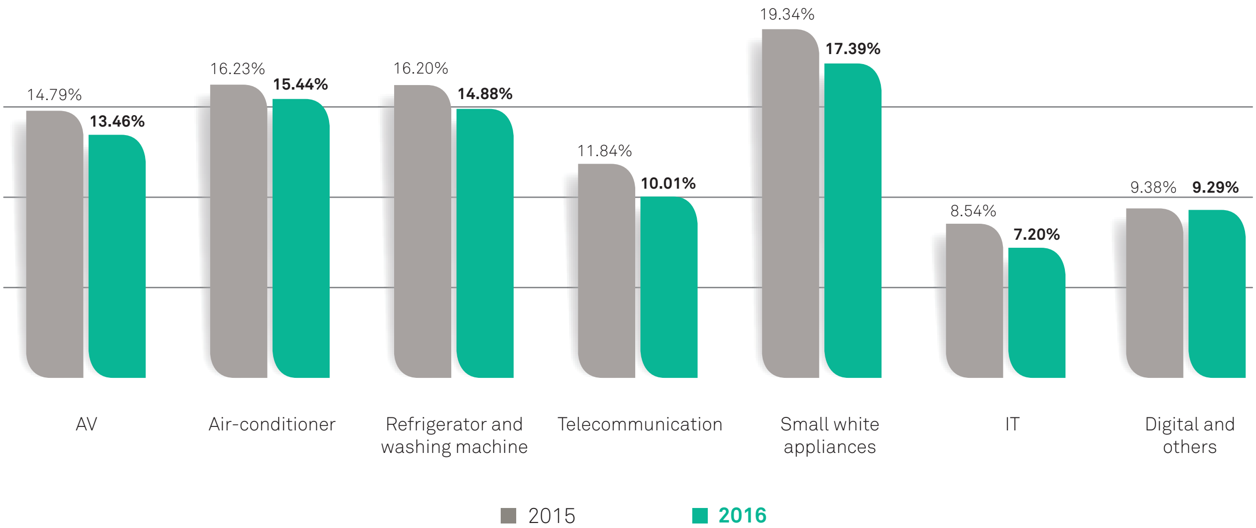



## Management Discussion and Analysis

### PROPORTION OF REVENUE FROM EACH PRODUCT CATEGORY OVER TOTAL REVENUE IS AS FOLLOWS:




### THE GROSS PROFIT MARGIN OF EACH PRODUCT CATEGORY IS AS FOLLOWS:



### Other income and gains

During the reporting period, the Group recorded other income and gains of approximately RMB1,964 million, representing a decrease of 1.50% as compared with RMB1,994 million in 2015.

Summary of other income and gains:

| | 2016 | 2015 |
|---|---|---|
| As a percentage of sales revenue: | | |
| Income from suppliers, net | 0.51% | 0.71% |
| Management and purchasing service fees from the Target Group | 0.04% | 0.39% |
| Income from air-conditioner installation | 0.25% | 0.23% |
| Gross rental income | 0.39% | 0.48% |
| Government grants | 0.23% | 0.25% |
| Income from extended warranties | 0.44% | 0.42% |
| Others | 0.70% | 0.61% |
| Total | 2.56% | 3.09% |


For the year ended 31 December 2016, management service fees from the Target Group represented the transactions between the Group and the Target Group for the period from 1 January 2016 to 31 March 2016. For the purchasing service fee, the relevant agreement has not been renewed upon its expiry on 31 December 2015.

### Consolidated gross profit margin

During the reporting period, as a result of the substantial increase in revenue contribution from the e-commerce business, which generally has relatively lower gross profit margins, accompany with the transformation and renovation of stores in the first-tier market, the Group's consolidated gross profit margin dropped by 1.72 percentage points from 17.81% for the corresponding period last year to 16.09%.

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

### Operating expenses

During the reporting period, the Group's total operating expenses (including selling and distribution expenses, administrative expenses and other expenses) were approximately RMB12,180 million, accounted for 15.88% of sales revenue, slightly up by 0.18 percentage point as compared with 15.70% for the corresponding period in 2015.

**Summary of operating expenses:**

| | **2016** | 2015 |
|---|---|---|
| As a percentage of sales revenue: | | |
| Selling and distribution expenses | **12.32%** | 12.06% |
| Administrative expenses | **2.58%** | 2.45% |
| Other expenses | **0.98%** | 1.19% |
| Total | **15.88%** | 15.70% |

## Management Discussion and Analysis


### Selling and distribution expenses

During the reporting period, as the Target Group's expenses have been added to the Group since 1 April 2016, the Group's total selling and distribution expenses increased from RMB7,792 million in the corresponding period last year to approximately RMB9,448 million, up 21.25%. The selling and distribution expenses ratio was 12.32%, increased by 0.26 percentage point as compared with 12.06% for the corresponding period in 2015. The increase in selling and distribution expenses ratio was mainly due to the rental expenses as a percentage of sales revenue increased by 0.19 percentage point from 5.18% in the corresponding period last year to 5.37% and the delivery expenses increased by 0.05 percentage point from 0.67% in the corresponding period last year to 0.72%. Overall, the Group's selling and distribution expenses ratio remained at a relatively stable level.

**Summary of selling and distribution expenses:**

| | **2016** | 2015 |
|---|---|---|
| As a percentage of sales revenue: | | |
| Rental | **5.37%** | 5.18% |
| Salaries | **2.96%** | 2.96% |
| Utility charges | **0.78%** | 0.82% |
| Advertising expenses | **1.17%** | 1.33% |
| Delivery expenses | **0.72%** | 0.67% |
| Others | **1.32%** | 1.10% |
| Total | **12.32%** | 12.06% |

## Management Discussion and Analysis

### Administrative expenses

During the reporting period, the Group's administrative expenses were approximately RMB1,980 million, higher than that of RMB1,581 million for the corresponding period in 2015 by 25.24%. As discussed above, it was mainly due to the adding of the Target Group's expenses to the Group since 1 April 2016. The expenses over revenue ratio was 2.58%, slightly increased by 0.13 percentage point as compared with 2.45% for the corresponding period in 2015. The Group has always strive to strengthen its control over administrative expenses in order to maintain its expenses over revenue ratio at a relatively low level in the industry.

### Other expenses

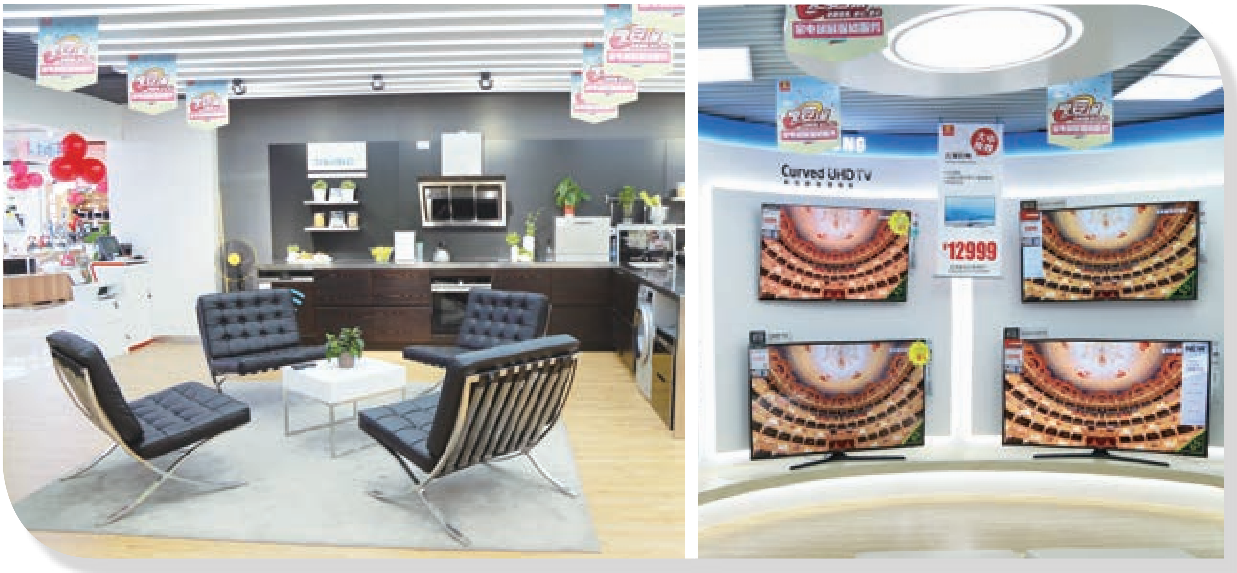
During the reporting period, other expenses of the Group mainly comprised, among others, business tax, bank charges and loss on close down of stores, which decreased slightly from RMB769 million in 2015 to approximately RMB752 million. The expenses over revenue ratio was approximately 0.98%, down 0.21 percentage point as compared with 1.19% in 2015.

### Profit before finance (costs)/income and tax

During the reporting period, as a result of the decrease in the consolidated gross profit margin and increase in the operating expenses ratio, the Group's profit before finance costs/income and tax decreased by 88.21% from RMB1,366 million in 2015 to approximately RMB161 million.

### Net finance (costs)/income

The Group's finance costs were mainly interest on bank loans and corporate bonds while finance income was mainly bank interest income. During the reporting period, the Group issued corporate bonds with an aggregate nominal value of RMB9,000 million, the related interest expenses was approximately RMB207 million. As a result, the net finance costs (finance income less finance costs) was approximately RMB3 million while there was a net income of RMB211 million for the corresponding period last year.




### Profit before tax

During the reporting period, the Group's profit before tax was approximately RMB158 million, which decreased by 89.98% as compared with RMB1,577 million in 2015.

### Income tax expense

During the reporting period, the Group's income tax expense dropped from RMB640 million in 2015 to approximately RMB213 million. The management considers the effective tax rate applied to the Group for the reporting period is reasonable.

### Profit for the year and earnings per share attributable to owners of the parent

As discussed above, as a result of the decrease in consolidated gross profit margin and an increase in operating expenses ratio during the reporting period, the profit attributable to the owners of the parent decreased by 73.10% from RMB1,208 million for the corresponding period last year to approximately RMB325 million. However, the profit in the second half of 2016 was approximately RMB201 million, increased significantly as compared with RMB124 million for the first half of 2016.

During the reporting period, the Group's basic earnings per share were RMB1.6 fen, as compared with RMB7.1 fen for the corresponding period last year.

### Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents held by the Group were approximately RMB13,237 million, which were mainly denominated in Renminbi and the rest in US dollars, HK dollars and other currencies, and represent an increase of 77.96% as compared with RMB7,438 million as at the end of 2015. The increase was mainly attributable to the issuance of corporate bonds by the Group with an aggregate nominal value of RMB9,000 million during the year.

### Inventories

As at the end of the reporting period, the Group's inventories amounted to approximately RMB11,606 million, representing an increase of 14.05% as compared with RMB10,176 million in 2015. The inventory turnover period decreased by 10 days from 70 days in 2015 to 60 days in 2016.

### Prepayments, deposits and other receivables

As at the end of the reporting period, prepayments, deposits and other receivables of the Group amounted to approximately RMB4,731 million, increased by 11.45% from RMB4,245 million as at the end of 2015.

# Management Discussion and Analysis

### Trade and bills payables

As at the end of the reporting period, trade and bills payables of the Group amounted to approximately RMB23,898 million, increased by 23.88% from RMB19,291 million as at the end of 2015. Trade and bills payables turnover days were approximately 119 days, decreased by 14 days from 133 days for the previous year.

### Capital expenditure

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB1,017 million, representing a 79.37% increase as compared with RMB567 million in 2015. The capital expenditure during the year was mainly for opening of new stores, remodelling of stores and purchase of hardware equipment relating to ERP project by the Group.

### Cash flows

During the reporting period, with the continuing improvement in its operational efficiency, the Group's net cash flows generated from operating activities amounted to approximately RMB2,685 million, increased significantly by 104.49% as compared with net cash flows of RMB1,313 million in 2015.

Net cash flows used in investing activities amounted to approximately RMB1,454 million, reduced by 10.14% as compared with RMB1,618 million used in 2015.

Net cash flows from financing activities amounted to approximately RMB4,501 million while RMB1,067 million was used in 2015. The net cash inflows this year was mainly due to the issuance of corporate bonds by the Group with an aggregate nominal value of RMB9,000 million.

### Dividend and dividend policy

The Board recommended a final dividend of HK0.70 cent (equivalent to RMB0.59 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2016, amounted to approximately HK$153,772,000 (equivalent to RMB130,056,000) based on 21,967,465,000 shares in issue as at 31 December 2016.

Currently, the Board anticipates that the dividend payout ratio of the Company will be maintained at approximately 40% of the Group's distributable profit generated during the relevant financial year. However the actual payout ratio in a financial year will be determined at the Board's full discretion, after taking into account, among other considerations, the working capital requirement of the Group, business environment and availability of investment opportunities.


### Contingent liabilities and capital commitment

At the end of the reporting period, the Group has no material contingent liabilities, but there were capital commitments of approximately RMB137 million.

### Foreign currencies and treasury policy

All the Group's income and a majority of its expenses were denominated in Renminbi. The Group has adopted effective measures to reduce its foreign exchange risks. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

The management estimates that less than 10% of the Group's current purchases are imported products and the transactions are mainly denominated in Renminbi.

### Financial resources and gearing ratio

During the reporting period, the Group's working capital, capital expenditure and cash for investments were mainly funded from cash on hand, cash generated from operations, interest-bearing bank loans and corporate bonds.

As at 31 December 2016, the total borrowings of the Group were the interest-bearing bank loans and the corporate bonds.

The interest-bearing bank loans comprised bank loans of US$286 million (equivalent to approximately RMB1,987 million) in aggregate bearing interest at floating rates and a bank loan of JPY50 million (equivalent to approximately RMB3 million) bearing interest at a fixed rate. The interest-bearing bank loans were repayable within 2 years.

The corporate bonds comprised (1) corporate bonds with an aggregate nominal value of RMB5,000 million issued at fixed coupon rates ranged from 4.00% to 4.50% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rates and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the third year; and (2) corporate bonds with an aggregate nominal value of RMB4,000 million issued at a fixed coupon rate of 5.67% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rate and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the second and fourth year.

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

As at 31 December 2016, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to approximately RMB10,840 million over total equity amounting to approximately RMB20,975 million, increased from 5.82% as at 31 December 2015 to 51.68%.

### Charge on group assets

As at the end of 2016, the Group's bills payable and interest-bearing bank loans were secured by the Group's time deposits amounting to approximately RMB5,383 million, certain inventories with a carrying value of approximately RMB567 million and certain buildings and investment properties of the Group with a carrying value of approximately RMB2,430 million. The Group's bills payable and interest-bearing bank loans amounted to approximately RMB17,359 million in total.

## OUTLOOK AND PROSPECTS

### The Integration of Online and Offline Accelerated By Internet Technology; To Boost the Development of New Retail Ecosystem towards Technology

In view of the trend of the integration of online and offline, along with the consumer structure upgrading and new norm of consumption, GOME is also actively exploring the path and model of new retail. Through the connection between products, membership and services online and offline, GOME maximized the integration of both online and offline. Meanwhile, by leveraging on technology and big data, GOME could analyze users' behavior in different scenarios to better exploit and satisfy customer demand, so as to create a new retail ecosystem. In the future, GOME will be transformed from an "appliance retailer" to an integrated provider of products and services with the theme around "home". Relying on the strong support by "supply chain", "new scenario" and "after-sale services", GOME will continuously upgrade the new retail strategy.

- ***Business Scope Expanded by New Retail Scenario***

  The mutual traffic brought by the integration of online and offline resources assists GOME to meet consumers' continuously upgraded diversified ways of consumption. Through building the diversified "integrated solution provider for households" and "entertainment + leisure", GOME is equipped to comprehensively provide customized, quality, professional services to consumers especially young consumers for the sake of their increasing demand in high quality, on-trend entertainment and interactive product experiences. Therefore, consumers will be able to enjoy the impressive one-stop shopping experience, which will benefit and strengthen the new traffic attraction initiatives and eventually driving the sales growth of the Group.

  GOME stores achieved the transformation from being a home appliance retailer to become an integrated "home appliance + home furnishing" service provider through building the integrated customized solutions, including home furnishing & design, water heating system, integrated cabinet, central air conditioning, etc. The real experience halls, such as clothes dryers, air purifiers, etc., established in GOME stores are aimed to create the "second living space" for the consumers.

  The integration of the eSports and net café elements into offline stores represented GOME's achievements in building the "product + game" oriented scenarios, so as to strengthen GOME's ability in operation, as well as transfer the traffic to sales revenue, a momentum bringing up profit; The rapid progress of VR cinema and continuously deepening baking classes allowed GOME to achieve the integration of "product + leisure" scenarios for the sake of consumers' greater demand for entertainment and leisure activities.

- ***Strong Supply Chain Enhances Core Competitiveness***

  With the supply chain as its core, GOME further optimized its product mix in terms of product differentiation, mid-to-high end products and arbitrage, so as to improve its operation ability and profitability of merchandise sales. By strategically cooperating with core suppliers, the Group is better able to provide customers with cost-effective goods. Meanwhile, by enhancing delivery efficiency, the Group leverages on its full logistic network coverage and develops its self-constructed warehouse to provide "one-stop service of delivery and installation" and facilitate its ability of logistic distribution. The Group continued to develop and deepen its overseas e-commence business, further accelerate its import and export capacity of the supply chain. At the same time of continuously escalating its strategy on the Internet TV sector, GOME integrated advantages and content layout of other parties to dominate the "entertainment hub" of smart appliances, and quickly attract young customer groups. Drawing on the investment layout in smart phone and smart products market, meanwhile, GOME successfully achieved the supply chain integration both in mobile and smart hardware.

- ***IoT Construct After-Sale Services Market***

  Purchase of goods no longer indicates the end of a transaction while it is the start of after-sale services. Based on its cloud service, GOME leverages on IoT technology to build the strong linkage between the smart home appliances and end users, so as to construct an IoT home ecosystem of GOME. Meanwhile, for the sake of the establishment of the most valuable IoT platform, GOME set foot in smart home appliances to complete its "data collection system", which allows GOME to provide services to the users during the whole life cycle of appliances, and elevate the threshold of home appliance retail industry and its own profitability.

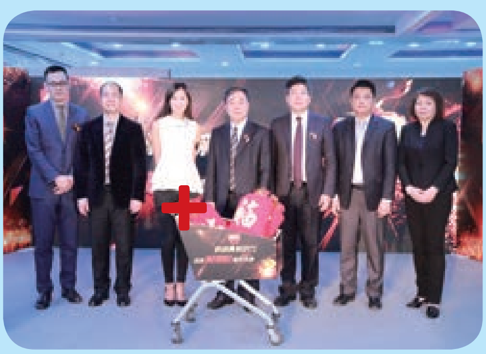
# Highlights of the Year

## JANUARY 2016

- At the 5th China Charity Festival, GOME Appliance has been awarded the 2015 Best Philanthropic Project Award for its "Run GOME-ers Run (奔 跑吧，美絲)" project, marking its fifth consecutive year of being awarded at the festival.

## MARCH 2016

- "Black Friday", GOME Appliance's original marketing campaign achieved single-day sales of RMB3.2 billion, which set a new record.



## APRIL 2016

- "GOME House Manager" went online, strengthened bonding with consumers through quality service to create a new service ecosystem.
- At the 2016 World Retail Congress, which has been known as the "Oscars in the retail industry", GOME Appliance has been honored the "Best cross channel consumer experience award".
- GOME Appliance processed a strategic cooperation with Amazon China, through which GOME Appliance official flagship store was formally unveiled on Amazon marketplace.

# Highlights of the Year

## MAY 2016

- GOME Appliance was among the first enterprises who entered the China Energy Label QR Code Consumer Service Platform (中國能效標識二維碼消費服務平台) since its unveiling and the concurrent launch of new energy efficiency labels.

## JUNE 2016

- GOME Electrical Appliances Holding Limited has received the "China daily Asia Pacific retail leadership award" presented by China Daily, being the only Chinese company being honoured with this distinction.
- GOME Appliance donated RMB300,000 to the tornado-strike regions including Funing and Sheyang of Yancheng City, Jiangsu, and sent relief supplies to the regions through China Foundation for Poverty Alleviation.


## JULY 2016

- At the 11th China Retailers Convention, GOME Appliance has been honored the "Top ten Chinese commercial brands 2016".


## AUGUST 2016

- GOME Appliance entered into strategic cooperation with Skyworth and Mango TV in relation to co-development of Internet-TV business and creating a closed-loop industry chain containing "content + license + terminal + channel + operation".
- GOME Appliance was listed the "Top 500 Chinese enterprises in 2016 (2016中國企業500強)", working it, thirteenth consecutive year of being featured in the list.

## SEPTEMBER 2016

- According to the "22nd top 100 most valuable brands of China report" announced in Boston of the USA, GOME Appliance has ranked the first in the retail industry category for ten consecutive years with a brand value of RMB76.856 billion.

- At the 11th Asian Brand Ceremony, GOME Appliance has been listed on "2016 top 500 Asian brands" for the fifth time, and also has received the "Top ten influential Asian brands" award.

## NOVEMBER 2016

- At the 4th China Business Innovation Conference of 2016, GOME has received the "Most influential Chinese enterprise for 15 years since joining WTO Entry (中國商業入世15年最具影響力企業) Award".

## DECEMBER 2016

- At the 30th anniversary, GOME put forward the "new retail" strategy, to establish the "6+1" model social business ecosystem and launched mobile internet strategic product – GOME Plus.
- Together with China Foundation for Poverty Alleviation, GOME announced the establishment of "GOME Future Foundation (國美未來基金會)", dedicated to building a platform where everyone could contribute and achieving sustainable development in public welfare. The purpose of the foundation is to construct multi-media classrooms for schools of poverty or disaster stricken areas and provide support in the education and life of local children, among other philanthropic endeavors.
- GOME was awarded the "RMB118.259 billion leading brand value", "China's onmi-channel online ecosystem model brand" and "China's most cost-effective O2M business platform" awards by "Dingdianbei", the "Top business innovation enterprise award" by "Beijing Youth Daily", the "China's most influential enterprises award" by "lyiou.com" and the "3.15 China's consumer market influence brand award" by "Consumer Daily".


会员公益行——

We believe future growth in the new ecosystem will be driven by growth of existing business, new retailing themes business, and more comprehensive after-sales services. As part of the strategy, GOME is transitioning itself to a provider of products and integrated home solutions. It is also transitioning from a home appliances retailer to a "products + entertainment and leisure" experiential brand.

# Directors and Senior Management Profile

## CHAIRMAN

Mr. ZHANG Da Zhong

**Mr. ZHANG Da Zhong**, aged 68, has been the Chairman and non-executive Director of the Company since 10 March 2011. Mr. Zhang was the founder of Beijing Dazhong Home Appliances Retail Co., Ltd. one of the leading domestic appliances retail chains in Mainland China. Mr. Zhang sold all of his interests in Beijing Dazhong Home Appliances Retail Co., Ltd. in late 2007 and established Beijing Dazhong Investment Co. Ltd., a company that engages primarily in private equity investment in which he is currently the president. Mr. Zhang was honored as China's Outstanding Private Entrepreneur (中國優秀民營企業家) and Outstanding Builder of Chinese Featured Socialism (優秀中國特色社會主義事業建設者), and was a member of the 8th Chinese People's Political Consultative Conference of Beijing, a member of the standing committee for both the 9th and 10th Chinese People's Political Consultative Conference of Beijing and a member of the standing committee of the 13th Beijing People's Congress. Mr. Zhang is currently the deputy chairman of the Beijing Commerce Federation (北京市商會).

## EXECUTIVE DIRECTOR

Mr. ZOU Xiao Chun

**Mr. ZOU Xiao Chun**, aged 47, has been an executive Director of the Company since 17 December 2010 and was the Vice President and the Senior Vice President of the Group from 17 December 2010 to 31 December 2013, mainly responsible for the Chinese legal and compliance matters and other deal-specific projects of the Group and is also a director of various subsidiaries of the Company. Mr. Zou graduated from the Department of Law of Nanchang University (formerly known as Jiangxi University) (南昌大學(原江西大學)法律專業專科) in June 1990 and was granted the Chinese Lawyers Qualification Certificate (中國律師資格證書) in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate (中國稅務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) in October 1996. Mr. Zou has been a practising lawyer over 20 years and has been practising legal areas relating to capital markets in the People's Republic of China over 10 years. In June 2006, Mr. Zou founded Beijing John & Law Firm (北京市中逸律師事務所) and has been acting as the founding partner and the managing partner. Between 2001 and 2011, Mr. Zou acted as the retainer legal adviser for Beijing Eagle Investment Co. Ltd (北京鵬潤投資有限公司) and Beijing GOME Electrical Appliance Co., Ltd (北京國美電器有限公司), both of which are owned or controlled by Mr. Wong Kwong Yu, a controlling shareholder of the Company. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) Co., Limited (北京中關村科技發展(控股)股份有限公司) (a company listed on the Shenzhen Stock Exchange) and since May 2012, he has been re-appointed as a director of such company. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited (國美控股集團有限公司), which is owned or controlled by Mr. Wong Kwong Yu, and was appointed as a director and vice chairman of Sanlian Commercial Co., Limited (三聯商社股份有限公司) (a company listed on the Shanghai Stock Exchange) between June 2011 and June 2014. Mr. Zou founded Jiandao Zhongchuang Investment Company Limited (簡道眾創投資有限公司) and was the chairman of the company in August 2014. He has been the chairman of UoneNet Technology (Beijing) Co., Ltd. (優萬科技(北京)股份有限公司 (a company listed on the New Third Board) since January 2016.

## NON-EXECUTIVE DIRECTORS


**Ms. HUANG Xiu Hong**, aged 44, has been a non-executive Director of the Company since 24 June 2015. Ms. Huang has been working at GOME Appliance since 1991 and was appointed as the GOME Appliance's general manager in Eastern China Region since 2005; from February 2009 up to now, she has been the President of both the Non-listed GOME Group and Pengrun Holdings Limited (鵬潤控股有限公司). Ms. Huang has obtained her MBA degree from Helsinki School of Economics in 2005, and she is now pursuing further education in financial EMBA in Tsinghua University PBC School of Finance. In 2007, Ms. Huang was honored the "Top Ten Outstanding Youth in Retail Industry of Shanghai" and a torchbearer of the Beijing Olympic Games in 2008; in 2009, she received the nomination title of "Outstanding Business Woman of China" conferred by All-China Women's Federation together with China General Chamber of Commerce; from 2012 to 2015, she was consecutively awarded "The Most Influential Business Woman in China". Besides, Ms. Huang was recognized as "The Significant Contributor in Building National Corporation Culture" in 2012, "Person of Asia Brand of 2013", etc. Currently she serves as the deputy chairman of both China Enterprise Confederation and China General Chamber of Commerce as well as a council member of Beijing Federation of Industry & Commerce. Ms. Huang is a sister of Mr. Wong Kwong Yu, the controlling shareholder of the Company. She is also directors of certain subsidiaries of the Company. Ms. Huang was the Acting Chairman of the Board of Beijing Centergate Technologies (Holding) Co., Ltd. (a company listed on Shenzhen Stock Exchange) from March 2014 to May 2014.


**Mr. YU Sing Wong**, aged 65, has been a non-executive Director of the Company since 24 June 2015. Mr. Yu has been the president of No. 9 Real Estate Company Limited (玖號置業有限公司) under GOME Holding Group (國美控股集團) since 2013, primarily responsible for the development and construction of No. 9 Shopping Plaza (玖號購物廣場) in Xiangjiang, Changsha, Hunan. From 2003 to 2012, Mr. Yu was the president of Beijing Xinhengji Investment and Management Group (北京新恒基投資管理集團), mainly in charge of the development and construction of the Xinhengji First City Project (新恒基第一城項目) in Shenyang, with an area of 1,000,000 square meters. From 2000 to 2002, he served as the general manager of Beijing Pengrun Real Estate Development Company Limited (北京鵬潤房地產開發有限公司), responsible for the development and construction of the Pengrun Garden Project (鵬潤家園項目). From 1992 to 2000, he was the vice president of Xinhengji Real Estate Development Company Limited (新恒基房地產開發有限公司), responsible for the development and construction of various projects, such as Xinhengji International Building (新恒基國際大廈), Pengrun Building (鵬潤大廈) and Jing An Centre (靜安中心). Before that, Mr. Yu was an assistant manager of a materials company in Luohu, Shenzhen from 1984 to 1991 and was a cadre of the office of machine tool station of the Ministry of First Machinery Industry (第一機械工業部機床總站) from 1973 to 1984.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Kong Wai, Conway

**Mr. LEE Kong Wai, Conway,** aged 62, has been an independent non-executive Director of the Company since 10 March 2011. Mr. Lee received a bachelor's degree in arts from the Kingston University (formerly known as the Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from the Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young for 29 years until 2009 and had held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia and New Zealand, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee has been an independent non-executive director of Chaowei Power Holdings Limited, West China Cement Limited, China Modern Dairy Holdings Limited, Tibet 5100 Water Resources Holdings Ltd., NVC Lighting Holding Limited, Yashili International Holdings Limited, GCL New Energy Holdings Limited, WH Group Limited and China Rundong Auto Group Limited (all being companies listed on the Hong Kong Stock Exchange) since June 2010, July 2010, October 2010, March 2011, November 2012, November 2013, May 2014, August 2014 and August 2014, respectively. Moreover, Mr. Lee was a non-executive director and the deputy chairman of Merry Garden Holdings Limited (a company listed on the Hong Kong Stock Exchange) from July 2014 to September 2015. Mr. Lee was an independent non-executive director of Sino Vanadium Inc. (a company listed on the TSX Venture Exchange in Canada), China Taiping Insurance Holdings Company Limited (a company listed on the Hong Kong Stock Exchange) and CITIC Securities Company Limited (a company listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange) from October 2009 to December 2011, from October 2009 to August 2013 and from August 2011 to May 2016, respectively. Mr. Lee has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Mr. NG Wai Hung

**Mr. NG Wai Hung**, aged 53, has been an independent non-executive Director of the Company since 10 June 2011. Mr. Ng is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the areas of securities law, corporate law and commercial law in Hong Kong and China trades and has involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies in Hong Kong. Mr. Ng has been an independent non-executive director of Fortune Sun (China) Holdings Limited, Trigiant Group Limited, Sustainable Forest Holdings Limited, On Time Logistics Holdings Limited, China Star Cultural Media Group Limited (currently known as Lajin Entertainment Network Group Limited), Kingbo Strike Limited and Xinyi Automobile Glass Hong Kong Enterprises Limited (all being companies listed on the Hong Kong Stock Exchange) since June 2006, August 2011, February 2013, June 2014, March 2015, June 2015 and June 2016, respectively. Moreover, Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited), KTP Holdings Limited (currently known as Ares Asia Limited), Tomorrow International Holdings Limited (currently known as Talent Property Group Limited), Perception Digital Holdings Limited (currently known as HongDa Financial Holding Limited), HyComm Wireless Limited (currently know as Qingdao Holdings International Limited) and Tech Pro Technology Development Limited (all being companies listed on the Hong Kong Stock Exchange) from September 2008 to February 2010, from November 1999 to February 2011, from March 2000 to January 2012, from January 2013 to August 2014, from January 2008 to September 2014 and from April 2011 to March 2017, respectively.

Ms. LIU Hong Yu

**Ms. LIU Hong Yu**, aged 53, has been an independent non-executive Director of the Company since 10 June 2013. Ms. Liu is a Chinese practising lawyer. Ms. Liu is the founding partner of Beijing Jincheng Tongda and Neal. Prior to that, Ms. Liu was the managing partner of Beijing Tongda Law Offices between April 1993 and April 2004, the legal adviser to Agricultural Bank of China (Beijing Branch) between May 1988 and April 1993 and a cadre of the People's Bank of China (Sichuan Province) between July 1985 and May 1988.

Ms. Liu graduated from Southwest University of Political Science and Law in 1985 with a Bachelor Degree in Law and obtained a Postgraduate Degree in Economic Law from the Graduate School of Chinese Academy of Social Sciences in 1998 and a Master Degree in Business Administration from Guanghua School of Business Management of Peking University in 2003. Ms. Liu is also qualified as a Chinese economist.

Ms. Liu was a member of the National Committee of the 11th Chinese People's Political Consultative Conference and a deputy to the 12th and 13th Beijing Municipal People's Congress, and is currently a member of the National Committee of the 12th Chinese People's Political Consultative Conference, a deputy to the 14th Beijing Municipal People's Congress and an executive member of the executive committee to the 11th China Feminine Congress. Ms. Liu is also a member of the 9th All-China Youth Federation, an executive member of the All China Female Lawyers Association and a legal consultancy expert of the Beijing Municipal Commission of Development and Reform.

Ms. Liu was an independent director of Founder Technology Group Company Limited (a company listed on Shanghai Stock Exchange) between April 2005 and June 2011, an independent director of Chongqing Three Gorges Water Conservancy and Electric Power Co., Ltd. (a company listed on Shanghai Stock Exchange) between June 2009 and June 2012, an independent director of China Real Estate Corporation Limited (formerly known as Chongqing International Enterprise Investment Co., Ltd.) (a company listed on Shenzhen Stock Exchange) between June 2009 and September 2015 and an external supervisor of Bank of Beijing Co., Ltd. (a company listed on Shanghai Stock Exchange) between August 2010 and July 2016. Ms. Liu is currently an independent non-executive director of China Machinery Engineering Corporation (a company listed on Hong Kong Stock Exchange) and an independent director of Lanpec Technologies Limited and Bank of Beijing Co., Ltd. (all being companies listed on the Shanghai Stock Exchange).

Mr. WANG Gao

**Mr. WANG Gao**, aged 51, has been an independent non-executive Director of the Company since 24 June 2015. Mr. Wang was appointed as the professor of marketing and the associate dean (Trainings for Senior Managers) in China Europe International Business School and the joint director of The Research Center of Globalization of China Enterprises (中國企業全球化研究中心) since 2009. From 2002 to 2008, Mr. Wang was the associate professor and the deputy of the Marketing Department under School of Economics and Management of Tsinghua University; from 2001 to 2002, he was the manager of Strategy and Analysis Department of Minute Maid Branch (美之源分公司) under the Coca-Cola Company in Houston of the United States; from 1998 to 2001, he served as the senior consultant of The Information Resources Limited of the United States (美國信息資源有限公司) in Chicago. Mr. Wang acquired his bachelor degree in Demography from Renmin University of China in 1988, and he obtained his Master of Social Science and Doctor of Sociology both from Yale University in 1994 and 1998, respectively. Mr. Wang is an independent director of Anhui Gujing Distillery Company Limited (a company listed on the Shenzhen Stock Exchange) since June 2014.

Except as disclosed above, none of the Directors is related to any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

## SENIOR MANAGEMENT

**Mr. WANG Jun Zhou**, aged 55, has been the President of the Group since 28 June 2010. He is also a director of various subsidiaries of the Company. Mr. Wang was the Executive Vice President of the Group during the period from November 2006 to June 2010 and an executive Director of the Company between December 2008 and June 2011. Mr. Wang is responsible for the overall management of daily operations, including the formulation of the Group's medium and long-term strategic plans and annual budgets as well as standardisation of various systems, processes and authorisations for the Group. Mr. Wang also assists in providing guidance and monitoring to the daily operations in each major region and each division of the Group as well as appraising and reviewing business management teams at all levels. Mr. Wang has over 10 years of experience in the sale and management of electrical appliances. Mr. Wang joined the Group in 2001 and previously held positions as general manager of the operations centre, general manager of the Southern China Region and general manager of the strategic and cooperation centre of the Group. In November 2014, Mr. Wang was awarded the China Chain Store & Franchise Association: Retail Person of the Year for 2014 (CCFA2014中國連鎖年度人物大獎) by the 16th China Retail Industry Convention. In July 2015, Mr. Wang was elected as the 10th Retail Person of the Year for 2014-2015, an award recognizing his contribution in leading the transformation and innovation of the Company for outstanding business results and substantial progress in 2014. In October 2015, President Wang Jun Zhou was awarded the title of "Outstanding Person on Home Appliance for the Thirty Years in China" (中國家電30年功勳人物獎) by China Household Electrical Appliances Association.

**Mr. FANG Wei**, aged 45, has been re-designated as the Chief Financial Officer of the Group since September 2011, as well as serving as the CEO of the Group's Internet company since November 2016. He is also a director of certain subsidiaries of the Company. Mr. Fang is responsible for the overall planning and implementation of the Group's financial management as well as the Internet business operations of the Group. Mr. Fang also participates in major decision making in relation to the investment, financing and operations of the Group. Mr. Fang is a graduate of the accounting faculty of Central University of Finance and Economics (中央財經大學會計系) and a holder of a master degree in management. He is qualified as a senior accountant and senior economist in China. He is also a fellow member of the Chartered Global Management Accountant (CGMA) association and a fellow member of Institute of Public Accountants (FIPA) of Australia. Mr. Fang joined the Group in January 2005, had held positions as assistant director and the director of the finance centre of the Group, and was granted the Special Contribution Award for Year 2011 and Contribution in Supporting New Business Award by the Group. Mr. Fang was named as the Talented Youth of Retail Sector in China for Year 2008 (2008年度中國零售業青年英才), Ten High-Profile Persons in Cash Management for Year 2012 (2012年現金管理十佳風雲人物), China's Top 10 Outstanding CFO of 2014 (2014年度中國十大傑出CFO), 2015 Finance Leader (2015年度財界領袖), 2015 Outstanding Global Finance Leader in China (2015年度中國國際財務卓越CFO人才獎) and China Annual Figure as CFO in 2015 (2015中國CFO年度人物), among others, due to his performance in financial management. Meanwhile, the team and projects led by Mr. Fang also received numerous awards, including the China Chamber of Commerce Science and Technology Award – Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎特等獎) for the ERP project under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程) with him being a core ERP project team leading member of GOME; as well as team awards including the Best Investor Relations Management Listed Company of the 2014 China Securities Golden Bauhinia Awards, the Best Investor Relations Award for 2014 and 2015 by Hong Kong Investor Relations Association, Best Investor Relations Management at the China Golden Hong Kong Securities Awards in 2016 and the 2016 Best Practice of Shared Service Centre of the Year by CGMA for his financial team in December 2016. Mr. Fang is currently the chairman of the supervisory committee of Sanlian Commercial Co., Ltd. (a company listed on the Shanghai Stock Exchange).

**Ms. WEI Qiu Li**, aged 49, has served as the Senior Vice President of the Group since March 2012, responsible for human resources and administrative management of the Group. Ms. Wei had been the Vice President of the Group since November 2006 and was an executive Director of the Company between January 2009 and June 2011. She is also a director of various subsidiaries of the Company. Ms. Wei is currently mainly responsible for the medium-to long term strategic planning, preparation of annual budget, standardisation of various policies, systems and authorisations, organisational planning and human resources training of the Group. Ms. Wei has over 15 years of experience in human resources and administrative management. Ms. Wei joined the Group in 2000 and had previously held positions as director of the management centre, director of the pricing centre and director of the human resources centre of the Group. Ms. Wei is currently a director of the board of Sanlian Commercial Co., Ltd. (a company listed on the Shanghai Stock Exchange). Ms. Wei obtained an Executive MBA (EMBA) from the China Europe International Business School (中歐國際工商學院) in 2013.

**Mr. LI Jun Tao**, aged 51, has been appointed as the Senior Vice President of the Group since March 2012, currently in charge of the smart manufacturing segment. Mr. Li has also been responsible for the operation and management of the offline business system of the Group, as well as serving as the CEO of GOME-on-line. He is also a director of various subsidiaries. Mr. Li has assumed senior management roles in areas such as municipal, provincial, business and operation sectors of the Group and has extensive experience in the establishment, development and extension of the supply chain of the Group's electrical appliances. He was awarded Top Ten Marketing Persons (十大營銷人物) organized by Southern Metropolis Daily in 2015. Mr. Li graduated from China Europe International Business School (中歐國際工商學院) with Executive MBA (EMBA).

**Mr. HE Yang Qing**, aged 54, has been the Senior Vice President of the Group since the end of 2012, mainly responsible for operations. Mr. He joined the Group in 2003 and had previously been in charge of the operation and management of the operation system and brand centres, including the first and second-tier market operation centre, chain development centre, customer service centre and information centre, as well as serving as the COO of GOME-on-line. Mr. He has over 20 years of extensive and solid experience in the retail and manufacture of home electrical appliances. He was named as Top Ten Persons of Brand Building in China for Year 2005 (2005年中國品牌建設十大人物) and Ten Outstanding Brand Managers in China for Year 2007 (2007年中國十大傑出品牌經理人), and was awarded Advertisers' Great Wall Award – Meritorious Figure Award for Year 2011 (廣告主長城獎－2011年度人物功勛獎). Mr. He is currently a director and the chairman of the board of Sanlian Commercial Co., Ltd. (a company listed on the Shanghai Stock Exchange).

## Directors and Senior Management Profile

**Mr. GUO Jun**, aged 45, has been re-designated as the senior vice president of the Group since January 2016. He is currently responsible for the operation and management of the business system of the Group. Before the re-designation, Mr. Guo had been the Vice President of the Group since April 2013 and received the 2013 Outstanding Vice President Award. Since joining the Group in 2005, Mr. Guo had been responsible for the establishment of various branches across the nation and had previously held positions as the acting general manager of Shenzhen GOME, general manager of the Northeast Region, acting general manager of the Southern China Region, director of sales and procurement at the headquarter of China Paradise, general manager of Fujian Region and director of the home appliance business centre of the headquarter. He is familiar with the market environments of various regions and has received the Outstanding Regional General Manager Award in 2008, repeatedly reaching new heights in sales records. In addition, the team led by Mr. Guo received the 2016 Outstanding Contribution Award of the Group. Mr. Guo graduated from Ningxia University (寧夏大學) majoring in electronic commerce and obtained an Executive MBA (EMBA) from China Europe International Business School (中歐國際工商學院) in 2015.

**Mr. LV Yi Fan**, aged 56, has been re-designated as the Vice President of the Group since March 2012, responsible for information technology system. Mr. Lv joined the Group in 2007, and held the position of director of information technology centre. The team and projects led by Mr. Lv also received numerous awards, including the China Chamber of Commerce Science and Technology Award – Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎特等獎) for the ERP project under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程) with him being a core ERP project team leading member of GOME. Under the leadership of Mr. Lv, the information team of the Group continued to perfect the optimization system between 2013 and 2015. In 2016, the Research and Development Centre (Chengdu) and Chengdu GOME Big Data Technology Co., Ltd. (成都國美大數據科技有限公司) was established and put into operation, marking the gradual realization of independent research and development of information and foreign product services. In addition, the team led by Mr. Lv received the Innovation Award and the 2016 Outstanding Contribution Award from the Group. In 2016, the Group obtained 136 software copyright certificates with independent intellectual property rights with Mr. Lv's assistance. Mr. Lv graduated from the Business Administration Faculty of Capital University of Economics and Business (首都經濟貿易大學). He has a master degree in management and the technical title of senior engineer.

**Mr. MA Hai Lin**, aged 48, was re-designated as the vice president of the Group at the end of 2013 and is currently mainly responsible for the operation of chain development, renovation and offline O2O experience store of the operation system. Mr. Ma joined the Group in 2007 and was the operating director of Northern China Region, director of store operating centre of the Group and general manager of Dalian branch of GOME Appliance prior to the re-designation. Mr. Ma has over 20 years of experience in China and foreign retail industry, over which he possesses a keen observation and perspectiveness ability over the retail industry. Mr. Ma graduated from Beijing Normal University (北京師範大學) in 1991.

# Report of the Directors

The board of directors (the "Directors") of the Company (the "Board") have pleasure in submitting its report and the audited financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the retailing of home appliances and consumer electronic products in China. The Group's revenue is mainly derived from business activities in the Mainland China. An analysis of the Group's income for the year is set out in note 6 to the financial statements on page 136.

## FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss on page 83 and Consolidated Statement of Comprehensive Income on page 84.

The state of affairs of the Group as at 31 December 2016 is set out in the Consolidated Statement of Financial Position on pages 85 to 86.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 89 to 90.

## SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 32 to the financial statements on page 167.

## DIVIDENDS

The Board recommended a final dividend of HK0.70 cent (equivalent to RMB0.59 fen) per ordinary share (the "Final Dividend") for the year ended 31 December 2016 amount to approximately HK$153,772,000 (equivalent to RMB130,056,000) based on 21,967,465,000 shares in issue as at 31 December 2016.

The payment of the Final Dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The Company will announce the record date for the Final Dividend, the book closure dates for determining the entitlement for the Final Dividend and the proposed payment date of the Final Dividend in due course in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and applicable laws.

## ANNUAL GENERAL MEETING

A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

## RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out in note 45 to the financial statements on page 190 and in the Consolidated Statement of Changes in Equity on pages 87 to 88.

As at 31 December 2016, the Company's reserves available for distribution to shareholders of the Company amounted to RMB174,550,000 (2015: RMB284,486,000) of which RMB130,056,000 has been proposed for the Final Dividend for the year.

## PROPERTY, PLANT AND EQUIPMENT

The movements in property and equipment during the year are set out in note 13 to the financial statements on pages 146 to 147.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

| | |
|---|---|
| – the largest supplier | 9.46% |
| – five largest suppliers combined | 41.47% |

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers noted above.

The business of the Group is principally engaged in retail business and the percentage of turnover for the year attributable to the Group's five largest customers was less than 30% of the Group's total turnover.

## DONATIONS

During the year, the Group has made charitable and other donations in Hong Kong and China totaling RMB5,020,000.

## DIRECTORS

The Directors who held office during the year and up to the date of this report were:

### Executive Director

Mr. ZOU Xiao Chun

### Non-Executive Directors

Mr. ZHANG Da Zhong
Ms. HUANG Xiu Hong
Mr. YU Sing Wong

### Independent Non-Executive Directors

Mr. LEE Kong Wai, Conway
Mr. NG Wai Hung
Ms. LIU Hong Yu
Mr. WANG Gao

## DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions which are disclosed in notes 25 and 40 to the financial statements on page 162, and pages 175 to 177 respectively and in the section headed "Connected Transactions" hereinbelow, there were no contracts of significance, to which any member of the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no Director of the Company was interested in any business (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, whether directly or indirectly, with the businesses of the Group.

However, during the year, Mr. Wong Kwong Yu ("Mr. Wong"), Ms. Du Juan, being the spouse of Mr. Wong, and Ms. Huang Xiu Hong (a non-executive director of the Company), being a sister of Mr. Wong, remained as directors of certain subsidiaries of the Company and had beneficial interest or held directorship or otherwise had control, through Artway Development Limited and its subsidiaries (the "Target Group") (which is ultimately wholly owned by Mr. Wong), in companies which operate an electrical appliances and consumer electronics products retail network under the trademark of "GOME Electrical Appliances", and related operation, mainly in cities other than the designated cities of the PRC in which the Group already operates (formerly known as the "Non-listed GOME Group").

On 31 March 2016, the Company completed the acquisition of the Target Group (the "Completion"). Since Completion, the Board considers that there is no longer any competition between the Group and Mr. Wong and his associates in the retail business of electrical appliances and consumer electronics products under the "GOME" brand name.

During the year and upon Completion, Mr. Wong and his associates remained interested in 40% of 國美在綫電子商務有限公司 ("GOME-on-line e-Commerce Co., Ltd." or "GOME-on-line") and the Group remained interested in 60% of GOME-on-line. Since May 2012, the Group has been operating GOME-on-line with no geographical restrictions.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### Long positions in the shares, the underlying shares and debentures of the Company

| Name of Director/ Chief Executive | Personal interest | Interest of spouse | Corporate interest | Trustee | Total | Approximate % shareholding |
|---|---|---|---|---|---|---|
| Huang Xiu Hong | – | – | 164,802,270 | – | 164,802,270 | 0.75 |
| Wang Jun Zhou | 10,187,000 *(Note 1)* | – | – | – | 10,187,000 | 0.05 |

*Notes:*

1. The relevant interest represented 10,187,000 shares issuable upon exercise of the Options (as defined below) granted to the Chief Executive pursuant to the Share Option Scheme (as defined below). These Options were held by the Chief Executive beneficially.

### Short positions in the shares, the underlying shares and debentures of the Company

Save as disclosed above, as at 31 December 2016, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the annual general meeting of the Company held on 15 April 2005, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the Board may grant share options (the "Options") to subscribe for shares of the Company (the "Shares") to employees, executives and officers of the Group and such other persons as referred to in the Share Option Scheme whom the Board considers will contribute or have contributed to the Group (the "Participants") to provide them with incentives and rewards for their contribution to the Group *(Note)*. On 7 July 2009, Options to subscribe for an aggregate of 383,000,000 Shares had been granted pursuant to the Share Option Scheme. Save for the Share Option Scheme, the Company has no other share option scheme.

At no time during the year was the Company, any of its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

*Note:* The Share Option Scheme has expired on 14 April 2015, accordingly save for the 76,886,000 Options (representing approximately 0.35% of the issued share capital of the Company as at 27 March 2017) that have been granted before the expiry date but not yet exercised, there is no more Share available for issue under the Share Option Scheme.

Options granted under the Share Option Scheme remain valid until 15 November 2017 in accordance with the terms of the Share Option Scheme and the terms of their grant.

## SHARE OPTION SCHEME

The Share Option Scheme has expired on 14 April 2015. As at 31 December 2016, Options to subscribe for an aggregate of 79,545,000 Shares of the Company granted before the expiry date pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

| Name of grantee | Date of grant | Exercise price per Share *HK$* | Number of Options: As at 1 January 2016 | Granted during the year | Exercised during the year | Cancelled/ lapsed during the year | As at 31 December 2016 *(Note 1)* | Price of Shares for Options exercised during the year *(Note 5)* *HK$* |
|---|---|---|---|---|---|---|---|---|
| Chief Executive | | | | | | | | |
| Wang Jun Zhou | 7 July 2009 | 1.90 | 10,187,000 | – | – | – | 10,187,000 | – |
| Other employees | 7 July 2009 | 1.90 | 80,890,000 | – | – | (11,532,000) | 69,358,000 | – |
| | | | | | | *(Note 4)* | | |
| Total | | | 91,077,000 | – | – | (11,532,000) | 79,545,000 | |

*Notes:*

1. On 5 December 2011, a resolution was passed by the shareholders of the Company to amend the terms of the Options granted and the terms of the Share Option Scheme. On 31 August 2012, 23 June 2015 and 11 November 2016 resolutions were passed by the Board to further amend the terms of the Options granted. As at 31 December 2016, the revised terms would have the following effects:

    a. 79,545,000 vested Options will become lapsed and ceased to have any further effect after 15 November 2017.

    b. In addition to the changing of the exercise periods of the Options, performance targets were added as a new condition for the exercise of the unvested Options above. Such performance targets are to be determined based on the weighted average of revenue and profits generated, new stores opened, special projects and other administrative work undertaken by the grantee, the compliance of the relevant internal and external law and regulations by the grantee and by reference to his/her seniority and job functions within the Group. Any grantee whose performance is assessed to be short of the performance target will have his/her number of unvested Options for vesting in the forthcoming exercise period adjusted downward and cancelled in proportion to the shortfall of his performance assessment to the performance target when such Options are vested.

2. The fair value of Options granted on 7 July 2009 under the Share Option Scheme, determined by using the Binomial Model value model, was approximately RMB296.45 million. The significant inputs into the model were the exercise price of HK$1.90 per share, expected volatility and historical volatility of 63%, expected dividend yield rate of 1.2% and annual risk-free interest rate of 2.565%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

3. As at 31 December 2016, all the Options granted have been vested.

4. 11,532,000 Options were lapsed during the year ended 31 December 2016.

5. The price of Shares disclosed for the Options exercised during the year is the weighted average of the closing price, quoted on the Stock Exchange immediately before the date of exercise of Options (if applicable).

## RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme on 3 October 2016 (the "Share Award Scheme"). The purposes and objectives of the Share Award Scheme are to:

1. recognise and motivate the contributions by certain participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;

2. attract suitable personnel for further development of the Group; and

3. provide certain employees with a direct economic interest in attaining a long-term employer-employee relationship between the Group and certain employees.

As at 31 December 2016, a sum of approximately HK$297,213,000 (excluding transaction costs) has been used to acquire 288,153,000 shares of the Company from the market by the independent trustee. No shares have been granted to the participants of the Group under the Share Award Scheme up to the date of this report.

Details of the Share Award Scheme are set out in the announcement of the Company dated 3 October 2016 and note 34 to the financial statements on page 170.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and so far as is known to any Director or Chief Executive, as at 31 December 2016, other than the Directors or the Chief Executive as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

| Name of Shareholder | Nature | Number of ordinary Shares held | Approximate % of shareholding |
|---|---|---|---|
| Mr. Wong *(Note 1)* | Interest in controlled corporation | 10,835,703,338 | 49.33 |
| Ms. Du Juan *(Note 2)* | Interest in controlled corporation | 10,835,703,338 | 49.33 |
| Ever Ocean Investments Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 25.04 |
| GOME Holdings Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 25.04 |
| Power Charm Holdings Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 25.04 |
| GOME Home Appliances (H.K.) Limited *(Note 3)* | Interest in controlled corporation | 5,500,000,000 | 25.04 |
| GOME Management Limited *(Note 3)* | Beneficial owner | 5,500,000,000 | 25.04 |
| Shinning Crown Holdings Inc. *(Note 4)* | Beneficial owner | 4,454,979,938 | 20.28 |

*Notes:*

1. Of these 10,835,703,338 Shares, 5,500,000,000 Shares were held by GOME Management Limited, 4,454,979,938 Shares were held by Shinning Crown Holdings Inc. and 634,016,736 Shares were held by Shine Group Limited (all the above companies are 100% beneficially owned by Mr. Wong), and 240,955,927 Shares were held by Smart Captain Holdings Limited and 5,750,737 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong). Excluded from the above table are 2,500,000,000 warrants hold by GOME Management Limited which are convertible into 2,500,000,000 Shares of the Company at the initial exercise price of HK$2.15 per Share.

2. Ms. Du Juan is the spouse of Mr. Wong. The aforesaid Shares that Mr. Wong and Ms. Du Juan are deemed to be interested refer to the same parcel of Shares.

3. All these companies are 100% beneficially owned by Mr. Wong. The Shares held by these companies refer to the same parcel of Shares and excluding the 2,500,000,000 warrants held by GOME Management Limited which are convertible into 2,500,000,000 Shares of the Company at the initial exercise price of HK$2.15 per Share prior to the second anniversary of 31 March 2016.

4. Shinning Crown Holdings Inc. is 100% beneficially owned by Mr. Wong.

## SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2016 are set out in note 1 to the financial statements on pages 91 to 101.

## CONNECTED TRANSACTIONS

During the year, the Group had the following transactions and arrangements with connected persons (as defined in the Listing Rules) of the Company which are required to be reported in this annual report in compliance with the disclosure requirements under Chapter 14A of the Listing Rules:

### (1) The Master Merchandise Purchase Agreement

On 25 January 2016, 國美電器有限公司 ("GOME Appliance Company Limited" or "GOME Appliance") (being an indirectly wholly-owned subsidiary of the Company), 國美在線電子商務有限公司 ("GOME-on-line e-Commerce Co., Ltd." or "GOME-on-line") (a company with 60% equity interest held by the Group and the remaining 40% equity interest held by GOME Ruidong (as defined below) and thus is a connected person of the Company), 國美電器零售有限公司 ("GOME Electrical Appliances Retail Co., Ltd." or "GOME Retail") and 北京國美銳動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong") (Companies being indirectly owned by Mr. Wong and his associates and thus are connected persons of the Company) entered into the 2016 Master Merchandise Purchase Agreement to renew the 2016 Transitional Master Merchandise Purchase Agreement (as defined below), pursuant to which GOME Retail and GOME Ruidong agreed to, and will procure other members of the Parent Group (a group of companies (other than the Group) controlled or more than 50% owned by Mr. Wong and his associates and principally engaged in retail business.) to, at the request of GOME Appliance or GOME-on-line from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronics products) to GOME Appliance or GOME-on-line on an at-cost basis for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively. The resolutions in relation to the 2016 Master Merchandise Purchase Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 29 February 2016. During the year, the total transaction amounts under the 2016 Master Merchandise Purchase Agreement was approximately RMB589.21 million.

Prior to the 2016 Master Merchandise Purchase Agreement, on 30 December 2015, the Group entered into a transitional agreement (the "2016 Transitional Master Merchandise Purchase Agreement") as transitional arrangements for the Group to continue its operations pending approval by the independent shareholders of, among other things, the acquisition of the Target Group by the Company (the "Acquisition") at the special general meeting (the "Acquisition SGM"). The Acquisition was approved by the independent Shareholders at the Acquisition SGM on 22 January 2016. The 2016 Transitional Master Merchandise Purchase Agreement has expired on 29 February 2016.

**(2) The Master Merchandise Supply Agreement**

On 25 January 2016, GOME Appliance, GOME-on-line, GOME Retail and GOME Ruidong entered into the 2016 Master Merchandise Supply Agreement to renew the 2016 Transitional Master Merchandise Supply Agreement (as defined below), pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line, GOME Retail or GOME Ruidong from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronics products) to GOME-on-line, GOME Retail or GOME Ruidong on an at-cost basis for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively. The resolutions in relation to the 2016 Master Merchandise Supply Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 29 February 2016. During the year, the total transaction amounts under the 2016 Master Merchandise Supply Agreement was approximately RMB3,150.61 million.

Prior to the 2016 Master Merchandise Supply Agreement, on 30 December 2015, the Group entered into a transitional agreement (the "2016 Transitional Master Merchandise Supply Agreement") as transitional arrangements for the Group to continue its operations pending approval by the independent shareholders of, among other things, the Acquisition at the Acquisition SGM. The Acquisition was approved by the independent Shareholders at the Acquisition SGM on 22 January 2016. The 2016 Transitional Master Merchandise Supply Agreement has expired on 29 February 2016.

**(3) The First Logistics Services Agreement**

On 30 December 2015, GOME Appliance and GOME-on-line entered into the 2016 First Logistics Services Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line from time to time, provide logistics services (including delivery of general merchandise to end customers) to GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amounts under the 2016 First Logistics Services Agreement was Nil.

**(4) The Second Logistics Services Agreement**

On 30 December 2015, GOME Ruidong, 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), (a company indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), GOME Appliance and GOME-on-line entered into the 2016 Second Logistics Services Agreement, pursuant to which GOME Ruidong and Anxun Logistics agreed to, and will procure other members of the Parent Group to, at the request of GOME-on-line and GOME Appliance from time to time, provide logistics services (including delivery of general merchandise to end customers of GOME-on-line and retail stores of GOME Appliance) for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amounts under the 2016 Second Logistics Services Agreement was approximately RMB575.15 million.

**(5) The First Warehouse Services Agreement**

On 30 December 2015, GOME Appliance, GOME-on-line and GOME Retail entered into the 2016 First Warehouse Services Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line and GOME Retail from time to time, provide warehousing services (including storage of general merchandise) to GOME-on-line and GOME Retail for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amounts under the 2016 First Warehouse Services Agreement was approximately RMB21.59 million.

**(6) The Second Warehouse Services Agreement**

On 30 December 2015, GOME Retail, GOME-on-line and GOME Appliance entered into the 2016 Second Warehouse Services Agreement, pursuant to which GOME Retail agreed to, and will procure other members of the Parent Group to, at the request of GOME-on-line and GOME Appliance from time to time, provide warehousing services (including storage of general merchandise) to GOME-on-line and GOME Appliance for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amounts under the 2016 Second Warehouse Services Agreement was Nil.

**(7) The First After-Sales Services Agreement**

On 30 December 2015, GOME Appliance and GOME-on-line entered into the 2016 First After-Sales Services Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line from time to time, provide after-sales services (including repairs, maintenance and customer service of general merchandise to end customers) to GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively. During the year, the total transaction amounts under the 2016 First After-Sales Services Agreement was Nil.

**(8) The Second After-Sales Services Agreement**

On 30 December 2015, GOME Ruidong and GOME-on-line entered into the 2016 Second After-Sales Services Agreement, pursuant to which GOME Ruidong agreed to, and will procure other members of the Parent Group to, at the request of GOME-on-line from time to time, provide after-sales services (including repairs, maintenance and customer service of general merchandise to end customers) to GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively. During the year, the total transaction amounts under the 2016 Second After-Sales Services Agreement was approximately RMB1.50 million.

**(9) The Management Agreement**

The Target Group is managed by the same management team of the Group for purpose of unified brand building, market information exchange and resources sharing. The Group charged the Target Group a management fee at the rate of 0.75% of the total revenue of the Target Group if the revenue is equal to or less than RMB5 billion or at the rate of 0.6% if the revenue exceeds RMB5 billion which is determined with reference to the expected expenses to be allocated to the Target Group by the head office of the Group and the expected revenue to be generated from the Target Group.

On 24 December 2015, 濟南萬盛源經濟諮詢有限公司 ("Jinan Wansheng Yuan Economic Consulting Company Limited" or "Jinan Wansheng"), 天津國美商業管理諮詢有限公司 ("Tianjin GOME Commercial Consultancy Company Limited" or "Tianjin Consultancy"), 昆明勤安商業管理諮詢有限公司 ("Kunming Qinan Commercial Consultancy Company Limited" or "Kunming Qinan") (all being indirect wholly-owned subsidiaries of the Company) and GOME Retail entered into a management agreement (the "2015 Management Agreement"), pursuant to which Jinan Wansheng, Tianjin Consultancy and Kunming Qinan agreed to provide and to procure other members of the Group to provide management services to the Target Group for a period of one year from 1 January 2016 to 31 December 2016, which was early terminated on 31 March 2016 upon the completion of the Acquisition of the Target Group by the Group. The annual cap of the management fee under the 2015 Management Agreement is RMB100 million. During the year, the management fee under the 2015 Management Agreement was approximately RMB31.66 million.

**(10) Lease Agreements**

On 30 December 2015 and 30 November 2016, the Group entered into a number of lease agreements and a supplemental agreement with 國美地產控股有限公司 ("GOME Property Co., Ltd." or "GOME Property") (a company being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), to lease certain properties located at No. 26, Xiaoyun Road, Chaoyang District, Beijing (the "Pengrun Building") as the office of the Group in Beijing (the "2016 Pengrun Lease Agreements") and (the "Supplemental Agreement"), respectively. The term of all of the office spaces has expired on 31 December 2016. The annual cap of rent (including management fee) payable by the Group for the year ended 31 December 2016 would be a sum of approximately RMB130.61 million. During the year, the total rental expense under the 2016 Pengrun Lease Agreements and the Supplemental Agreement was approximately RMB127.13 million.

On 20 December 2016, the Group entered into the 2017 Pengrun Lease Agreement with GOME Property to renew the 2016 Pengrun Lease Agreements and the Supplement Agreement for a term of 6 years commencing on 1 January 2017 and ending on 31 December 2022. The maximum annual cap for the rent (including management fee) payable (before the 10% discount) by the Group under the 2017 Pengrun Lease Agreement is approximately RMB186.15 million.

On 30 December 2015, GOME Appliance leased from 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") (a company being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), the property located at No. A7, North Lane, Xibahe, Chaoyang District, Beijing ("the Xibahe Property") for use as a retail store of the Group (the "2016 Xibahe Lease Agreement"). The 2016 Xibahe Lease Agreement has expired on 31 December 2016. The annual cap of rent payable by the Group for the year ended 31 December 2016 would be a sum of approximately RMB15.77 million. During the year, the total rental expense under the 2016 Xibahe Lease Agreement was approximately RMB15.77 million.

On 20 December 2016, the Group entered into the 2017 Xibahe Lease Agreement with Beijing GOME to renew the 2016 Xibahe Lease Agreement for a term of 1 year commencing from 1 January 2017 to 31 December 2017. The annual cap of rent (including management fee) payable by the Group for the year ending 31 December 2017 would be approximately RMB16.10 million.

All independent non-executive Directors have reviewed the continuing connected transactions as set out in paragraphs (1) to (10) above (collectively, the "Continuing Connected Transactions") and confirmed that they were entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or on terms not less favourable to the Group than terms available to or from independent third parties; and

3. in accordance with the relevant agreement(s) governing the above-mentioned continuing connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, the auditors of the Company have confirmed to the Board that the above-mentioned Continuing Connected Transactions:

1. have been approved by the Board;

2. are in accordance with the pricing policies of the Group where such transactions involved the provision of goods or services by the Group;

3. have been entered into in accordance with the relevant agreements governing such transactions; and

4. have not exceed the respective caps stated in the relevant announcements.

## EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group employed a total of 43,013 employees. The Group recruits and promotes individuals based on merit and their development potentials. The remuneration package inclusive of bonus and share option scheme offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

## PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 10 to the financial statements on page 142.

## COMMITMENTS

Details of commitments are set out in note 39 to the financial statements on pages 173 to 174.

## INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of each of the independent non-executive Directors.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 64 to 76.

## EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 43 to the financial statements on page 183.

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

During the year ended 31 December 2016, the Company repurchased an aggregate of 494,108,000 Shares on the Stock Exchange, details of which are as follows:

| Month/Year | Number of Shares (HK$0.025 each in the share capital of the Company) repurchased | Highest price per Share *HK$* | Lowest price per Share *HK$* | Aggregate consideration (excluding expenses) *HK$* |
|---|---|---|---|---|
| May 2016 | 50,000,000 | 0.93 | 0.89 | 45,260,000 |
| June 2016 | 246,649,000 | 0.94 | 0.89 | 224,407,760 |
| July 2016 | 197,459,000 | 1.00 | 0.94 | 191,627,760 |
| | 494,108,000 | | | 461,295,520 |

The Shares repurchased during the year ended 31 December 2016 were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value thereof.

During the year ended 31 December 2016, the Group issued (1) corporate bonds with an aggregate nominal value of RMB5,000 million at fixed coupon rates ranged from 4.00% to 4.50% per annum in the PRC, and (2) corporate bonds with an aggregate nominal value of RMB4,000 million at a fixed coupon rate of 5.67% per annum in the PRC. Such corporate bonds have a term of 6 years.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2016.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save for the Options and warrants as set out above and in note 33 and note 35, respectively to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2016.

## DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The information required for disclosure under Rule 13.20 of the Listing Rules in relation to the Company's advance to an entity is as follows:

天津國美商業管理諮詢有限公司 ("Tianjin GOME Commercial Consultancy Company Limited" or "Tianjin Consultancy"), a subsidiary of the Company, had advances in the aggregate amount of RMB3.6 billion (the "Advance") to 北京戰聖投資有限公司 ("Beijing Zhansheng Investment Co., Ltd." or "Beijing Zhansheng"), a third party independent of each of the Company and its connected persons (within the meaning of the Listing Rules), through 興業銀行股份有限公司北京分行 ("Beijing Branch of Industrial Bank Co., Ltd" or the "Lending Bank") pursuant to the loan agreement entered into between Tianjin Consultancy, Beijing Zhansheng and the Lending Bank on 14 December 2007. The Advance was used by Beijing Zhansheng for the sole purpose of acquisition of the entire registered capital of 北京市大中家用電器連鎖銷售有限公司 ("Beijing Dazhong Home Appliances Retail Co., Ltd." or "Dazhong"). The Advance was a secured loan and was utilised upon the completion of the acquisition of Dazhong on 31 March 2016.

## EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 44 to the financial statements on page 189.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years is set out on page 3.

## RISK FACTORS

Details of the risks associated with the operation of the Group are set out in the risk factors section on page 61 to 63.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their respective shareholders if new shares are issued.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

## AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming Annual General Meeting of the Company.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year, the Company made contribution to the matters of environmental, social and governance, details of which are as follows:

### Environmental Protection

Environmental protection is a key focus for the Group. The conscientious use of resources and adoption of related best practices across the Group's businesses underlie its commitment to safeguarding the environment. The Group encourages environmental protection by promoting awareness of the issue amongst its employees. It also complies with relevant environmental legislation.

An ever-improving management system, enhanced monitoring of activities and procedures, energy conversation and environmental protection are strongly promoted.

### Compliance with Laws and Regulations

The Group has established procedures in place to ensure that its operations comply with applicable laws, rules and regulations. The audit committee of the Company is delegated by the Board to monitor the Group's policies and practices for achieving compliance with legal and other regulatory requirements, and such policies and practices are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operating units whenever necessary.

As far as the Company is aware, the Group has complied in all material respects with laws and regulations that have a significant impact on the Group's business and operations.

### Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of any personal characteristics. It has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behaviour, and employees' rights and benefits. The Group also establishes and implements policies that promote a harmonious and respectful workplace.

The Group believes that employees are the most valuable assets of an enterprise and regards human resources as its corporate wealth. The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different types of training, staff's knowledge of corporate operations as well as their occupational and management skills are enhanced. The Group also organizes staff-friendly activities for employees, such as outings, to promote staff relationships and physical fitness.

### Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure its working environment is healthy and safe. The Group provides communications on health and safety matters and other programmes to employees in order to raise their awareness of such issues and enhance their related behavior.

### Training and Development

The Group is committed to the professional and personal development and growth of all employees and considers training and development a critical continuous process. Many on the-job and other training courses and programmes are provided to help employees maintain and develop their skills and professionalism. Structured training programmes including seminars are offered to staff with the objective of grooming and unleashing their full potential, supporting, organisational development and facilitating team synergies. Employees are encouraged to take advantage of these programmes in order to equip themselves with the skills and knowledge for expanded career opportunities within the Group.

### Commitment to Quality

The Group has made relentless efforts in delivering premium products and highly tailored services. Looking forward to 2017, the Company will continue with its research and innovation to enrich the Group's products.

The Company will also ensure the quality and safety of its products and place customers' needs at its priority in order to maintain its competitive advantage and to increase shareholders' value further.

### Management of Supply Chain

The Group adheres to open, fair and transparent criteria in selecting suppliers and service providers, and has established a supplier evaluation system in which vendors' price, quality, cost, delivery and after-sales service are assessed. The Group will carry out long-term monitoring of suppliers' quality and conduct regular reviews of all suppliers as well as casual examinations of different suppliers to ensure the sustainable quality of material supplies and services it receives.

A full report of environmental, social and governance of the Company will be published in the manner required by the Listing Rules in due course.

On behalf of the Board

**Zhang Da Zhong**
*Chairman*

Hong Kong, 27 March 2017

# Risk Factors

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses. The factors set out below are those that the Group believes could affect the Group's businesses, financial condition, results of operations or growth prospects. These factors are by no means exhaustive or comprehensive, and there may be other factors in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future. In addition, this Annual Report does not constitute a recommendation or advice for you to invest in the shares of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the shares of the Company.

## RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

### Economic conditions

We are a leading chain-store retailer of home appliances and consumer electronic products in China and our turnover is particularly sensitive to changes in the economic conditions and PRC consumer confidence. Consumer confidence is affected by, among other factors, general business conditions, stock market and real estate market conditions, as well as by current and expected future global or regional macroeconomic conditions. We cannot assure you that consumer demand will not be impacted by the continuing weakness in the global economic condition or any future deterioration of economic condition in the PRC.

### Credit terms

The Group relies on the credit terms contained in the supply agreements with its suppliers and the credit terms of its banking facilities. Pursuant to these supply agreements, most of the suppliers, according to the contracts, have granted favourable credit terms in exchange for, among other things, receiving bills from the Group's banks for settlement of the invoices. The issuing banks currently require upfront pledges over the Group's accounts with such banks and with the remainder to be settled upon the expiry of such bank bills. The Group relies heavily on these favourable credit terms granted by the suppliers and issuing banks in order to conserve its working capital. In the event that the suppliers or issuing banks are unable or unwilling to offer these favourable credit terms to the Group, the operations and profitability of the Group may be adversely affected.

### Terms of the supply agreements

One of the competitive strengths of the Group is its ability to offer products at competitive prices. Pursuant to most of the supply agreements between the Group and its suppliers, these suppliers have undertaken to guarantee the gross profit margin of the Group with respect to specific products supplied and sold and to offer the lowest product prices to the Group within specific locations where the Group operates. However, there is no guarantee that the Group will be able to secure these favourable terms with its suppliers after the expiry of the existing supply agreements. In the event that the Group is unable to maintain its leading position and scale of operations in the PRC retail market of electrical appliances and consumer electronics products, the suppliers may not offer the same terms to the Group after the expiry of the existing supply agreements. In such event, the business performance and profitability of the Group may be adversely affected.

## Risk Factors

### Reliance on key management personnel

The success of the Group in expanding its growth in operations and maintaining growth in its profitability relies on the strategy and vision of its key management, efforts of key members of the management and their experience in the PRC electrical appliance and consumer electronics products retail market. The unanticipated resignation or departure of any of these key management members of the Group could have a material adverse impact on the operations of the Group. There is no assurance that the Group will be able to manage its business by retaining its existing management team and by attracting additional qualified employees.

### Location of outlets and lease renewal

One of the key factors in the success of the Group is its ability to establish its retail outlets at suitable and convenient locations where there is high pedestrian traffic and good accessibility (whether by public transportation or other means). During the year ended 31 December 2016, most of the retail outlets leased by the Group were with a term of 5 to 10 years. Given the scarcity of retail premises at these suitable and convenient locations, there is no assurance that the Group will be able to find premises suitable for its retail operations or to lease them on commercially acceptable terms. In the event that there is any material difficulty in finding retail premises at suitable locations or securing the leasing of such premises on commercially acceptable terms, the Group's expansion plans and business performance may be adversely affected.

### Intensified competition between traditional retailers and online retailers

The competition of the retail business in China is severe. The Group faces pressure arising from the competition with traditional store retailers, online retailers, suppliers and other retailers. Such pressure may affect the income and profitability of the Group. The competition between the Group and local, regional, domestic or even international chain retailers is not only limited to business, but also extends to the areas of consumers, talents, site of stores, products and other important aspects. At the same time, the suppliers of the Group also supply their products and services to consumers directly. The competitors of the Group are similar to us in terms of their market shares in the retail markets of home appliances and consumer electronic products and their financial resources, therefore, the Group may have to further lower the retail prices in order to increase our market share and attract more consumers. The adjustment of retail price may affect the operation results of the Group.

### The operation of the ERP information management system

The inventory management, delivery and other operating segments of the Group are largely dependent on the ERP information management system of the Group. If the system of the Group does not operate smoothly or encounters interruption during operation, the business and operation of the Group may be affected.

ERP information management system is the basis for the efficient operation of the Group. To a large extent, the Group relies on such system to manage the processes such as the recording and execution of orders, pricing and monitoring inventory level and restocking. If the ERP information management system does not reach the expected results during operation or fails to meet the requirements arising from the continuous development of business, the business of the Group may be affected, which in turn may dampen our sales, increase our expenses and costs and lead to under-stock or over-stock and may have an adverse effect on the Group's business and operation results.

## RISKS ASSOCIATED WITH THE PRC

### Changing economic, political and social conditions or government policies in the PRC

While the PRC economy has experienced significant growth in the past 20 years or more, such growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy but may also have a negative effect on the Group's operations. For example, the Group's financial condition and operating results may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

Although in recent years the PRC government has implemented measures emphasizing the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. There is no assurance that future changes in the PRC's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on the Group's current or future business, results of operations or financial condition.

### Changes in foreign exchange regulations and fluctuation of RMB

All of the operating revenues of the Group are denominated in RMB. In order to fund its foreign currency needs, including its payment of dividends to shareholders of the Company, a portion of the Group's RMB-denominated revenue must be converted into Hong Kong dollars. Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payments are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with the PRC State Administration of Foreign Exchange, or SAFE. Under the current foreign exchange control system, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to the Group to enable it to fund its foreign currency needs or to pay dividends declared.

# Corporate Governance Report

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to upholding good corporate governance practices. For the year ended 31 December 2016, the Company was in compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2016.

## BOARD OF DIRECTORS

### Board composition

During the year ended 31 December 2016 and up to the date of issue of this Annual Report, the Board comprises the following executive Director, non-executive Directors and independent non-executive Directors:

| | |
|---|---|
| Mr. Zhang Da Zhong | *(Non-executive Director and Chairman)* |
| Mr. Zou Xiao Chun | *(Executive Director)* |
| Ms. Huang Xiu Hong | *(Non-executive Director)* |
| Mr. Yu Sing Wong | *(Non-executive Director)* |
| Mr. Lee Kong Wai, Conway | *(Independent non-executive Director)* |
| Mr. Ng Wai Hung | *(Independent non-executive Director)* |
| Ms. Liu Hong Yu | *(Independent non-executive Director)* |
| Mr. Wang Gao | *(Independent non-executive Director)* |

The biographical details of the current Board members are set out on pages 38 to 41 of this Annual Report.

Each of Mr. Zou Xiao Chun, being an executive Director, Mr. Zhang Da Zhong, being a non-executive Director, Mr. Lee Kong Wai, Conway and Mr. Ng Wai Hung, both being an independent non-executive Director, was re-elected at the Year 2016 Annual General Meeting of the Company with a specific term of 3 years from 22 June 2016. Each of Ms. Huang Xiu Hong and Mr. Yu Sing Wong, both being a non-executive Director, Ms. Liu Hong Yu and Mr. Wang Gao, both being an independent non-executive Director, was re-elected or appointed at the Year 2015 Annual General Meeting of the Company with a specific term of 3 years from 24 June 2015. The Board has confirmed with each of the independent non-executive Director as to his/her independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

### Roles and functions

The Board is responsible for formulating strategic business development, reviewing and monitoring business performance of the Group, approving major funding and investment proposals as well as preparing and approving financial statements of the Group. The Board gives clear directions as to the powers delegated to the management for the administrative and management functions of the Group.

### Board meetings and general meetings

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2016, 8 Board meetings (including 4 regular Board meetings) and 3 general meetings of the Company were held. Details of the Directors' attendance records during the year are as follows:

| Directors | Special General Meetings held on 22 January 2016 and 29 February 2016 Attendance | Annual General Meeting held on 22 June 2016 Attendance | Board Meeting Attendance |
|---|---|---|---|
| Mr. Zhang Da Zhong | 2/2 | 1/1 | 8/8 (4/4)* |
| Mr. Zou Xiao Chun | 2/2 | 1/1 | 8/8 (4/4)* |
| Ms. Huang Xiu Hong | 2/2 | 1/1 | 8/8 (4/4)* |
| Mr. Yu Sing Wong | 2/2 | 1/1 | 8/8 (4/4)* |
| Mr. Lee Kong Wai, Conway | 2/2 | 1/1 | 8/8 (4/4)* |
| Mr. Ng Wai Hung | 2/2 | 1/1 | 8/8 (4/4)* |
| Ms. Liu Hong Yu | 2/2 | 1/1 | 8/8 (4/4)* |
| Mr. Wang Gao | 2/2 | 1/1 | 8/8 (4/4)* |

* *Regular Board meetings – apart from all regular Board meetings, the Board also met from time to time to discuss the day-to-day operations and other affairs.*

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. Notices of all 4 regular Board meetings during the year under review were sent to all Directors in compliance with the said requirement. Agenda accompanying Board papers relating to all 4 regular Board meetings during the year under review were sent to all Directors at least 3 days respectively prior to such meeting in compliance with the CG Code.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separated and should not be performed by the same individual. The Company was in compliance with code provision A.2.1 of the CG Code during the review period. Mr. Zhang Da Zhong served as the chairman of the Company, primarily responsible for providing leadership to the Board. During the year under review, Mr. Wang Jun Zhou was the president of the Company, undertaking the duties of the chief executive officer of the Company to oversee the business of the Group and executing decisions of the Board.

### Directors' Trainings

As an internal routine, during the year under review, the Company provided the Directors, the management and other relevant departments of the Company with the following trainings to keep them abreast of their responsibilities and roles under the relevant laws and regulations as well as various internal control systems for compliance purposes:

1. Annual in-house training conducted by external counsel in December 2016 on, among others, Inside Information, Connected Transactions as well as the Environmental, Social and Governance (ESG) Reporting Guide for 2 hours (the "Annual In-house Training").

2. Subject to participation quotas available to the Company, the Company from time to time invited the Directors, the management and the relevant staffs of the Company to attend seminars given by external professional firms and regulators.

As an internal routine, the Company also provides each new Director with a comprehensive training on duties and responsibilities of directors of Hong Kong listed companies conducts by external counsel after their appointment (the "Upfront Directors' Training") and the various updated internal guidelines of the Company for compliance purposes.

Details of trainings received by each Director during the year under review are set out below:

| Names of Directors | Details of trainings |
|---|---|
| Mr. Zhang Da Zhong | – Attended the Annual In-house Training. |
| Mr. Zou Xiao Chun | – Attended the Annual In-house Training. |
| Ms. Huang Xiu Hong | – Attended the Annual In-house Training. |
| Mr. Yu Sing Wong | – Attended the Annual In-house Training. |
| Mr. Lee Kong Wai, Conway | – Attended the Annual In-house Training.<br>– Attended the training on New Auditors Reporting Standards organized by PwC for 1 hour in June 2016.<br>– Studied the Corporate Regulation Newsletter by SFC, "Risk Focus" by HKICS Regional Board Secretaries Panel, "More Than a Trend – Environment, Social and Governance Reporting Benefits Companies by Molini Thadani, the Head of Corporate Sustainability of HSBC and Connected Transaction under Chapter 14A of main board Listing Rules, etc., for a total of 4.5 hours. |
| Mr. Ng Wai Hung | – Attended the Annual In-house Training.<br>– Attend the training on The Solicitors' Accounts Rules as amended by the Solicitors' Accounts (Amendment) Rules 2012 organized by Hong Kong Academy of Law Limited for 1.5 hours in May 2016.<br>– Attended the training on The Competition Ordinance – Should we be Worried? organized by Lex Omnibus Limited for 3.25 hours in August 2016.<br>– Attend the training on Pro Bono Work: Legal & Risk Perspectives organized by Hong Kong Academy of Law Limited for 3.5 hours in August 2016.<br>– Attended the training on A Practical Analysis of Acquisition Financing for M&A Lawyers organized by Lex Omnibus Limited for 3.25 hours in August 2016.<br>– Attended the training on Takeover and Mergers in Hong Kong organized by Lex Omnibus Limited for 3.25 hours in September 2016.<br>– Attended the training on Market Misconduct and Insider Dealing organized by Lex Omnibus Limited for 3.25 hours in October 2016. |
| Ms. Liu Hong Yu | – Attended the Annual In-house Training. |
| Mr. Wang Gao | – Attended the Annual In-house Training. |

## BOARD COMMITTEES

During the year under review, the Board had the following committees:

1. Remuneration Committee;
2. Nomination Committee;
3. Independent Committee; and
4. Audit Committee.

### Remuneration Committee

The Remuneration Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph B.1.2 of the CG Code. During the year ended 31 December 2016, a majority of the members of the Remuneration Committee are independent non-executive Directors and the Remuneration Committee comprised the following members:

| | |
|---|---|
| Mr. Ng Wai Hung | *(Independent non-executive Director and the chairman of the Remuneration Committee)* |
| Mr. Lee Kong Wai, Conway | *(Independent non-executive Director)* |
| Ms. Liu Hong Yu | *(Independent non-executive Director)* |
| Mr. Zou Xiao Chun | *(Executive Director)* |
| Ms. Huang Xiu Hong | *(Non-executive Director)* |

The Remuneration Committee, among other matters, was primarily responsible for the following duties during the year under review:

1. to make recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policy on all such remunerations;

2. to determine, with delegated responsibility, the remuneration packages of individual executive Director and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and to make recommendations to the Board on the remuneration of non-executive Directors and independent non-executive Directors, having regard to salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

6. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee shall meet at least once each year. During the year ended 31 December 2016, the Remuneration Committee, among other matters, approved and recommended the terms and remunerations of the executive Director, the non-executive Director and the independent non-executive Directors for re-election.

During the year under review, the Remuneration Committee had held 1 meeting. Attendance records of the members of the Remuneration Committee of such meeting are as follows:

| Committee members | Attendance |
|---|---|
| Mr. Ng Wai Hung | 1/1 |
| Mr. Lee Kong Wai, Conway | 1/1 |
| Ms. Liu Hong Yu | 1/1 |
| Mr. Zou Xiao Chun | 1/1 |
| Ms. Huang Xiu Hong | 1/1 |

### Nomination Committee

The Nomination Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph A.5.2 of the CG Code. During the year ended 31 December 2016, a majority of the members of the Nomination Committee are independent non-executive Directors and the Nomination Committee comprised the following members:

| | |
|---|---|
| Mr. Wang Gao | *(Independent non-executive Director and the chairman of the Nomination Committee)* |
| Mr. Ng Wai Hung | *(Independent non-executive Director)* |
| Ms. Liu Hong Yu | *(Independent non-executive Director)* |
| Mr. Lee Kong Wai, Conway | *(Independent non-executive Director) (appointed with effect from 31 March 2016)* |
| Mr. Zhang Da Zhong | *(Non-executive Director) (appointed with effect from 31 March 2016)* |
| Mr. Zou Xiao Chun | *(Executive Director) (resigned with effect from 31 March 2016)* |
| Ms. Huang Xiu Hong | *(Non-executive Director) (resigned with effect from 31 March 2016)* |

The Nomination Committee, among other matters, was primarily responsible for the following duties during the year under review:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and

4. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman of the Board and the President of the Company.

The Nomination Committee shall meet at least once each year.

During the year under review, the Nomination Committee, among other matters, assessed the continuous independence of the independent non-executive Directors, reviewed the structure, size and composition of the Board, considered and recommended the reorganisation of the Nomination Committee and the re-election of Directors.

During the year under review, 2 meetings of Nomination Committee were held. Attendance records of the members of the Nomination Committee of such meetings are as follows:

| Committee members | Attendance |
|---|---|
| Mr. Wang Gao | 2/2 |
| Mr. Ng Wai Hung | 2/2 |
| Ms. Liu Hong Yu | 2/2 |
| Mr. Lee Kong Wai, Conway** | 1/2 |
| Mr. Zhang Da Zhong** | 1/2 |
| Mr. Zou Xiao Chun* | 1/2 |
| Ms. Huang Xiu Hong* | 1/2 |

* *Mr. Zou Xiao Chun and Ms. Huang Xiu Hong resigned as members of Nomination Committee with effect from 31 March 2016 and therefore they did not attend the meetings of the Nomination Committee held subsequent to their resignations.*

** *Mr. Lee Kong Wai, Conway and Mr. Zhang Da Zhong were appointed members of Nomination Committee with effect from 31 March 2016. Therefore, they did not attend meetings of Nomination Committee prior to their appointments.*

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience and reputation of such candidate.

Pursuant to Bye-law 99(A) of the Company's Bye-laws, at each annual general meeting of the Company, at least one third of the Directors for the time being shall retire from office, except for the director holding the office as the chairman or managing director of the Company. Pursuant to the code provision A.4.2 of the CG Code, every director appointed should be subject to retirement by rotation at least once every three years. The Company has reviewed its Bye-laws and the Private Act adopted by the Company in Bermuda in 1992 with reference to the code provision A.4.2 of the CG Code and noted that section 4(e) of the Private Act stipulates that any chairman or managing director of the Company shall not be subject to retirement by rotation under the Bye-laws of the Company. In the circumstances, any proposed amendments to the Company's Bye-laws shall take into account the provisions of the Company's Private Act which the Company is subject to.

The Board has adopted a Board Diversity Policy (the "Policy"):

1. The Policy aims to set out the approach to achieve diversity in the Board.

2. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

3. The Company recognizes and embraces the benefits of having a diverse Board, and sees diversity at the Board level as an essential element in maintaining a competitive advantage. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The benefits of diversity continue to influence succession planning and is a key selection criteria for the Board.

4. The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

### Independent Committee

The Independent Committee was established by the Board on 21 August 2009. During the year ended 31 December 2016, the Independent Committee comprised the following members:

| | |
|---|---|
| Mr. Zhang Da Zhong | *(Non-executive Director and the chairman of the Independent Committee)* |
| Mr. Lee Kong Wai, Conway | *(Independent non-executive Director)* |
| Mr. Ng Wai Hung | *(Independent non-executive Director)* |
| Ms. Liu Hong Yu | *(Independent non-executive Director)* |
| Mr. Wang Gao | *(Independent non-executive Director)* |

The Independent Committee, among other matters, was primarily responsible for the following duties during the year under review:

1. to evaluate, assess and advise on the material connected transactions of the Group before execution;

2. to oversee the execution and performance of the material connected transactions of the Group;

3. to devise and review the internal control systems, policies and/or procedures relating to connected transaction management of the Group;

4. to monitor the compliance of material connected transactions of the Group with the applicable law and regulations;

5. to devise and review the internal control systems, policies and/or procedures of the Group generally;

6. to report to the Board on all matters relating to connected transactions and internal control matters of the Group; and

7. to consider other matters and/or special projects as assigned and authorized by the Board.

During the year under review, the Independent Committee, among other matters, considered and approved the renewal of a number of existing continuing connected transactions of the Group.

During the year under review, 2 meetings of Independent Committee were held. Attendance records of the members of the Independent Committee of such meetings are as follows:

| Committee members | Attendance |
|---|---|
| Mr. Zhang Da Zhong | 2/2 |
| Mr. Lee Kong Wai, Conway | 2/2 |
| Mr. Ng Wai Hung | 2/2 |
| Ms. Liu Hong Yu | 2/2 |
| Mr. Wang Gao | 2/2 |

### Accountability and Audit

The Directors have acknowledged by issuing a management representation letter to the Auditors that they bear the ultimate responsibility of preparing the financial statements of the Group.

### Audit Committee

The Audit Committee was established in 2004. During the year ended 31 December 2016, the Audit Committee comprised the following members:

| | |
|---|---|
| Mr. Lee Kong Wai, Conway | *(Independent non-executive Director and the chairman of the Audit Committee)* |
| Mr. Ng Wai Hung | *(Independent non-executive Director)* |
| Ms. Liu Hong Yu | *(Independent non-executive Director)* |
| Mr. Yu Sing Wong | *(Non-executive Director)* |

The Audit Committee has adopted written terms of reference substantially the same as those contained in paragraph C.3.3 of the CG Code.

The Audit Committee is primarily responsible for, among others, the following duties during the year under review:

1. to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor and to deal with any questions of resignation or dismissal of that auditor;

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

3. to develop and implement policy on the engagement of an external auditor to supply non-audit services;

4. to monitor integrity of the financial statements, annual reports and interim reports of the Company and to review significant financial reporting judgments contained in them;

5. to review the Company's financial controls, internal control and risk management systems;

6. to discuss the system of internal control with the management and ensure that the management has discharged its duty to have an effective internal control system;

7. to review the Group's financial and accounting policies and practices; and

8. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provides a timely response to the issues raised.

The Audit Committee shall meet at least twice each year. In 2016, 4 Audit Committee meetings were held for, among other matters, considering the annual results of the Group for the financial year ended 31 December 2015, the quarterly results of the Group for the three-month period ended 31 March 2016, the interim results of the Group for the six-month period ended 30 June 2016 and the quarterly results of the Group for the nine-month period ended 30 September 2016, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group.

Attendance records of the Audit Committee members during the year are as follows:

| Committee members | Attendance |
|---|---|
| Mr. Lee Kong Wai, Conway | 4/4 |
| Mr. Ng Wai Hung | 4/4 |
| Ms. Liu Hong Yu | 4/4 |
| Mr. Yu Sing Wong | 4/4 |

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2016 was RMB7,811,000 (2015: RMB9,000,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2016 was RMB762,000 (2015: RMB877,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the AGM to be held in 2017. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the AGM to be held in 2017.

## INTERNAL CONTROLS AND RISKS MANAGEMENT

Management had implemented a system of internal controls and risks management to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are compiled with, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and managed. The Group has put in place an internal control system based on various control points with an aim to prevent employees from exploiting system loop holes. In addition, the Group tasked a specialized surveillance team, which is highly independent, highly focused and empowered with sufficient authority, to deter unethical and illegal activities such as fraud, embezzlement, malpractice, misconduct, unauthorized partnerships and acquiescence. The Group set up an internal audit system to monitor the execution of the financial policies, improve financial control and prevent financial risks, directly reporting to the headquarter.

The Board had reviewed the effectiveness of the Group's internal control and risk management systems for the year 2016 and is satisfied that, based on information furnished to it and on its own observations, the present internal control systems of the Group are satisfactory.

## COMPANY SECRETARY

During the year under review, the Company Secretary was Mr. Szeto King Pui, Albert who was not an employee of the Company and was a partner of an external law firm. The primary corporate contact person at the Company for the Company Secretary is Mr. Cheng Yik, Eric, the Financial Controller of the Company. The Company Secretary had complied with Rule 3.29 of the Listing Rules in respect of professional training during the year under review.

## COMMUNICATION WITH SHAREHOLDERS

The Company is committed to ensuring shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including annual general meetings, special general meetings, annual, interim and quarterly reports, notices of general meetings and circulars sent to shareholders by post, announcements on the website of the Stock Exchange, and press releases and other corporate communications available on the Company's website. The Company has established the practice, on a voluntary basis, of publishing quarterly results of the Group on the website of the Stock Exchange to provide better disclosure to the financial market and to the existing and potential shareholders of the business performance of the Group.

Registered shareholders are notified by post of the shareholders' meetings. Any registered shareholder is entitled to attend and vote at the annual general meeting and the special general meeting, provided that his/her/its shares have been fully paid up and recorded in the register of members of the Company.

## SHAREHOLDERS' RIGHTS

### Right to convene a special general meeting

Pursuant to section 74 of the Bermuda Companies Act 1981 which the Company is subject to, shareholder(s) of the Company holding not less than 10% of the paid up capital of the Company carrying voting right at the general meetings of the Company, are entitled to make a requisition to the Board to convene a special general meeting of the Company ("SGM"), and the Board shall forthwith proceed to convene an SGM upon such requisition.

The SGM requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists.

If the Board does not within twenty one days from the date of the deposit of the requisition proceed duly to convene an SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of such requisitionists, may themselves convene an SGM, but any SGM so convened shall not be held after the expiration of three months from the date of the deposit of such requisition.

The SGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which the SGMs are to be convened by the Board. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to convene an SGM shall be repaid to the requisitionists by the Company.

### Right to propose resolutions at general meetings

Pursuant to sections 79 and 80 of the Bermuda Companies Act 1981 which the Company is subject to, shareholder(s) holding not less than 5% of the total voting rights of the Company or not less than 100 shareholders, are entitled to make a requisition to the Company to give shareholders notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting of the Company, provided that:

(1) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company, not less than six weeks before the next annual general meeting; and

(2) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

### Right to nominate directors for election at general meetings

Pursuant to Bye-law 103 of the Company's Bye-laws, whenever the appointment/election of director(s) is considered at a general meeting by any of the above requisitions or otherwise, if a shareholder who is qualified to attend and vote at the general meeting convened to deal with appointment/election of director(s) wishes to propose a person who is not a retiring director at such general meeting for appointment or election as a director, such shareholder shall deposit or lodge a written notice of the intention to propose a person for election or appointment as a director, together with the written notice by the person nominated of his willingness to be elected or appointed as a director, at the head office or registered office of the Company at least seven days prior to the date of such general meeting, provided that such written notices shall not be lodged earlier than the day after the dispatch of the notice of the general meeting appointed for such election.

### Disclaimers

Contents of this section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only, do not represent and should not be regarded as legal or other professional advice to the shareholders from the Company. Shareholders should seek their independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims all liabilities and losses incurred by its shareholders in reliance on any contents of this section headed "Shareholders' Rights".

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2016, there was no significant change to the Company's Bye-laws or Memorandum of Association.

## PROCEDURES FOR PUTTING ENQUIRIES TO THE BOARD

Shareholders may put enquiries to the Board in writing by addressing the same to the Board by post or delivery to Suite 2915, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or email to info@gome.com.hk.

## INVESTOR RELATIONS

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. During the year under review, the Directors and senior management of the Company participated in numerous road shows and investment conferences. In addition, the Company also maintains regular communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

| | BEIJING | HONG KONG |
|---|---|---|
| Telephone number: | +86 10 5928 8915 | +852 2122 9133 |
| By post: | 18/F, Block B, Eagle Plaza<br>No. 26 Xiaoyun Road<br>Chao Yang District<br>Beijing, China | Suite 2915, 29th Floor<br>Two International Finance Centre<br>8 Finance Street, Central<br>Hong Kong, China |
| Attention: | Investor Relations Department | Corporate Finance & Development Department |
| By email: | ir@gome.com.cn | info@gome.com.hk |

# Independent Auditor's Report

Ernst & Young
22nd CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

**To the members of GOME Electrical Appliances Holding Limited**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 191, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Acquisition of Artway Development Limited and its subsidiaries during the year* | |
| As further explained in note 5 to the financial statements, during the year the Group acquired control over, and therefore consolidated Artway Development Limited and its subsidiaries (collectively referred to as the "Target Group"). The accounting for the acquisition is complex and requires significant judgements when performing the purchase price allocation, including determining the fair values of the warrants issued as part of the consideration paid, and the Target Group's identifiable assets and liabilities. The Company, assisted by its external valuation specialists, determined the fair value of the non-cash consideration and the Target Group's identifiable assets and liabilities. The purchase price allocation resulted in goodwill of RMB6,987,869,000<br><br>The Group's disclosures about the business combination are included in notes 3 and 5 to the consolidated financial statements. | We involved our valuation experts to assist us in evaluating the fair value of the non-cash consideration and the Target Group's identifiable assets and liabilities. These procedures included evaluating the fair values of the warrants issued as part of the consideration for the acquisition, the methodology, assumptions and discount rate used in calculating the fair value of the identifiable assets and liabilities of the Target Group, the procedures applied to identify and fair value the assets and liabilities of the Target Group on acquisition and the competency and objectivity of the external valuation specialist engaged by the Company. We also assessed the adequacy of disclosures about the business combination in the consolidated financial statements. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment testing of goodwill* | |
| Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of RMB14,324,966,000 as of 31 December 2016 was material to the consolidated financial statements. In addition, management's assessment process is complex and judgemental and is based on various assumptions, specifically assumptions about store revenues, gross margins, expenses and the discount rate, which are affected by expected future market or economic conditions.<br><br>The Group's disclosures about goodwill are included in notes 3 and 15 to the consolidated financial statements. | Our audit procedures included, among others, involving our valuation experts to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and long term growth rate for Artway Development Limited, China Paradise Electronics Retail Limited ("China Paradise") and Beijing Dazhong Home Appliances Retail Co., Ltd ("Dazhong Appliances"). Our testing included, but was not limited to, comparing key assumptions to externally available industry, economic and financial data and the Group's own historical data and performance. We also performed a sensitivity analysis for the recoverable amounts of the respective cash-generating units. We also focused on the adequacy of the disclosures about the key assumptions used in the value in use calculations in the consolidated financial statements. |
| *Impairment testing of store assets* | |
| The Group operates retail stores in Mainland China. The store assets which mainly represent leasehold improvements were important to our audit due to the size of the store assets with a carrying amount of RMB938,498,000 at 31 December 2016, as well as the judgement of management involved in the assessment of the recoverability of the assets. Such judgement is mainly focused on estimating future store performance, which is dependent on, amongst others, the industry landscape, overall economic environment and the competitors in local markets. Management assesses, on a half-year basis, whether there are events indicating a potential impairment. Management provided for an impairment loss of RMB37,852,000 during the year.<br><br>The Group's disclosures about impaired assets are included in notes 3 and 13 to the consolidated financial statements. | Our audit procedures included, among others, an evaluation of the Group's policies and procedures to identify events that are indicators of the potential impairment of assets related to underperforming stores. We assessed management's cash flow assumptions for each cash-generating unit for which an impairment indicator was identified and corroborated them by comparing to internal forecasts and store improvement plans, as well as to historical data and performance. We also involved our valuation experts to evaluate the discount rate applied by the Group. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Independent Auditor's Report

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Denis Ming Kui Cheng.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
27 March 2017

# Consolidated Statement of Profit or Loss

Year ended 31 December 2016

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | **76,695,025** | 64,595,127 |
| Cost of sales | 7 | **(66,318,216)** | (55,082,038) |
| **Gross profit** | | **10,376,809** | 9,513,089 |
| Other income and gains | 6 | **1,964,324** | 1,994,026 |
| Selling and distribution expenses | | **(9,448,122)** | (7,791,964) |
| Administrative expenses | | **(1,979,752)** | (1,580,572) |
| Other expenses | | **(751,945)** | (768,601) |
| **Profit before finance (costs)/income and tax** | | **161,314** | 1,365,978 |
| Finance costs | 8 | **(234,615)** | (43,226) |
| Finance income | 8 | **231,794** | 253,999 |
| **PROFIT BEFORE TAX** | 7 | **158,493** | 1,576,751 |
| Income tax expense | 11 | **(212,688)** | (640,257) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(54,195)** | 936,494 |
| Attributable to: | | | |
| Owners of the parent | | **325,139** | 1,207,963 |
| Non-controlling interests | 37 | **(379,334)** | (271,469) |
| | | **(54,195)** | 936,494 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 12 | | |
| – Basic | | **RMB1.6 fen** | RMB7.1 fen |
| – Diluted | | **RMB1.6 fen** | RMB7.1 fen |

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **(LOSS)/PROFIT FOR THE YEAR** | | **(54,195)** | 936,494 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | | |
| Changes in fair value of other investments | *18* | **20,322** | 212,992 |
| Exchange differences on translation of foreign operations | | **(1,035)** | 3,292 |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | | **19,287** | 216,284 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **19,287** | 216,284 |
| **TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR** | | **(34,908)** | 1,152,778 |
| Attributable to: | | | |
| Owners of the parent | | **344,426** | 1,424,247 |
| Non-controlling interests | *37* | **(379,334)** | (271,469) |
| | | **(34,908)** | 1,152,778 |

# Consolidated Statement of Financial Position

31 December 2016

| | Notes | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | *13* | **6,644,941** | 4,393,245 |
| Investment properties | *14* | **605,030** | 599,832 |
| Goodwill | *15* | **14,324,966** | 7,145,117 |
| Other intangible assets | *16* | **432,403** | 242,363 |
| Investments in associates | *17* | **17,000** | – |
| Other investments | *18* | **1,007,046** | 595,013 |
| Lease prepayments and deposits | *19* | **1,521,948** | 1,423,833 |
| Entrusted loans | *20* | **500,000** | – |
| Deferred tax assets | *21* | **56,251** | 40,140 |
| Total non-current assets | | **25,109,585** | 14,439,543 |
| **CURRENT ASSETS** | | | |
| Inventories | *22* | **11,605,958** | 10,176,004 |
| Trade and bills receivables | *23* | **162,908** | 189,439 |
| Prepayments, deposits and other receivables | *24* | **4,731,201** | 4,245,343 |
| Due from related companies | *25* | **239,392** | 189,694 |
| Equity investments at fair value through profit or loss | *26* | **1,333,529** | 1,029,142 |
| Pledged deposits | *27* | **5,382,804** | 3,880,903 |
| Cash and cash equivalents | *27* | **13,236,752** | 7,437,717 |
| Total current assets | | **36,692,544** | 27,148,242 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *28* | **23,898,406** | 19,290,931 |
| Customers' deposits, other payables and accruals | *29* | **3,932,511** | 2,591,986 |
| Interest-bearing bank loans | *30* | **520,164** | 971,512 |
| Due to related companies | *25* | **661,427** | 1,028,149 |
| Tax payable | | **1,051,761** | 857,222 |
| Total current liabilities | | **30,064,269** | 24,739,800 |

## Consolidated Statement of Financial Position

31 December 2016

| | Notes | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|---|
| **NET CURRENT ASSETS** | | **6,628,275** | 2,408,442 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **31,737,860** | 16,847,985 |
| **NON-CURRENT LIABILITIES** | | | |
| Bonds payable | *31* | **8,849,485** | – |
| Deferred tax liabilities | *21* | **443,098** | 159,623 |
| Interest-bearing bank loans | *30* | **1,470,050** | – |
| Total non-current liabilities | | **10,762,633** | 159,623 |
| Net assets | | **20,975,227** | 16,688,362 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *32* | **527,309** | 423,268 |
| Reserves | *36* | **21,958,850** | 17,402,681 |
| | | **22,486,159** | 17,825,949 |
| **Non-controlling interests** | | **(1,510,932)** | (1,137,587) |
| Total equity | | **20,975,227** | 16,688,362 |

**Zhang Da Zhong**
*Director*

**Zou Xiao Chun**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2016

| | Notes | Attributable to owners of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital RMB'000 Note 32 | Treasury shares RMB'000 Note 34 | Share premium RMB'000 | Contributed surplus RMB'000 | Capital reserve RMB'000 | Share option reserve RMB'000 | Warrant reserve RMB'000 | Asset revaluation reserve# RMB'000 | Other investment revaluation reserve RMB'000 | Statutory reserves RMB'000 Note 36 | Exchange fluctuation reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Balance at 1 January 2016 | | 423,268 | - | 9,548,118 | 657 | (618,172) | 163,383 | - | 117,468 | 336,382 | 1,632,156 | (147,580) | 6,370,269 | 17,825,949 | (1,137,587) | 16,688,362 |
| Loss for the year | | - | - | - | - | - | - | - | - | - | - | - | 325,139 | 325,139 | (379,334) | (54,195) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | | | |
| Changes in fair value of other investments | 18 | - | - | - | - | - | - | - | - | 20,322 | - | - | - | 20,322 | - | 20,322 |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | - | - | - | (1,035) | - | (1,035) | - | (1,035) |
| Total comprehensive income for the year | | - | - | - | - | - | - | - | - | 20,322 | - | (1,035) | 325,139 | 344,426 | (379,334) | (34,908) |
| Establishment of a subsidiary | | - | - | - | - | - | - | - | - | - | - | - | - | - | 5,989 | 5,989 |
| Issue of shares | | 114,572 | - | 5,018,248 | - | - | - | - | - | - | - | - | - | 5,132,820 | - | 5,132,820 |
| Shares repurchased for cancellation | | (10,531) | - | (382,867) | - | - | - | - | - | - | - | - | - | (393,398) | - | (393,398) |
| Shares repurchased for share award scheme | | - | (257,495) | - | - | - | - | - | - | - | - | - | - | (257,495) | - | (257,495) |
| Equity-settled share option arrangements | 33 | - | - | - | - | - | 337 | - | - | - | - | - | - | 337 | - | 337 |
| Transfer to statutory reserves | | - | - | - | - | - | - | - | - | - | 42,828 | - | (42,828) | - | - | - |
| 2015 dividend paid | 38 | - | - | - | - | - | - | - | - | - | - | - | (284,211) | (284,211) | - | (284,211) |
| Reclassification of warrants | 35 | - | - | - | - | - | - | 117,731 | - | - | - | - | - | 117,731 | - | 117,731 |
| Wind-up of subsidiaries | | - | - | - | - | - | - | - | - | - | (219) | - | 219 | - | - | - |
| At 31 December 2016 | | 527,309 | (257,495)* | 14,183,499* | 657* | (618,172)* | 163,720* | 117,731* | 117,468* | 356,704* | 1,674,765* | (148,615)* | 6,368,588* | 22,486,159 | (1,510,932) | 20,975,227 |

# Consolidated Statement of Changes in Equity

## Year ended 31 December 2016

| | | Attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital RMB'000 Note 32 | Share premium RMB'000 | Contributed surplus RMB'000 | Capital reserve RMB'000 | Share option reserve RMB'000 | Asset revaluation reserve# RMB'000 | Other investment revaluation reserve RMB'000 | Statutory reserves RMB'000 Note 36 | Exchange fluctuation reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Balance at 1 January 2015 | | 423,221 | 9,543,093 | 657 | (618,172) | 163,036 | 117,468 | 123,390 | 1,505,592 | (150,872) | 5,798,503 | 16,905,916 | (871,398) | 16,034,518 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 1,207,963 | 1,207,963 | (271,469) | 936,494 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | |
| Changes in fair value of other investments | 18 | – | – | – | – | – | – | 212,992 | – | – | – | 212,992 | – | 212,992 |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | – | 3,292 | – | 3,292 | – | 3,292 |
| Total comprehensive income for the year | | – | – | – | – | – | – | 212,992 | – | 3,292 | 1,207,963 | 1,424,247 | (271,469) | 1,152,778 |
| Establishment of a subsidiary | | – | – | – | – | – | – | – | – | – | – | – | 5,280 | 5,280 |
| Exercise of share options | | 47 | 5,025 | – | – | (1,555) | – | – | – | – | – | 3,517 | – | 3,517 |
| Equity-settled share option arrangements | 33 | – | – | – | – | 1,902 | – | – | – | – | – | 1,902 | – | 1,902 |
| Transfer to statutory reserves | | – | – | – | – | – | – | – | 129,318 | – | (129,318) | – | – | – |
| 2014 dividend paid | 38 | – | – | – | – | – | – | – | – | – | (234,864) | (234,864) | – | (234,864) |
| 2015 interim dividend paid | 38 | – | – | – | – | – | – | – | – | – | (274,769) | (274,769) | – | (274,769) |
| Wind-up of subsidiaries | | – | – | – | – | – | – | – | (2,754) | – | 2,754 | – | – | – |
| At 31 December 2015 | | 423,268 | 9,548,118* | 657* | (618,172)* | 163,383* | 117,468* | 336,382* | 1,632,156* | (147,580)* | 6,370,269* | 17,825,949 | (1,137,587) | 16,688,362 |

# The asset revaluation reserve arose from changes in use from owner-occupied properties to investment properties carried at fair value.

* These reserve accounts comprise the consolidated reserves of RMB21,958,850,000 (2015: RMB17,402,681,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2016

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **158,493** | 1,576,751 |
| Adjustments for: | | | |
| Finance income | 8 | **(231,794)** | (253,999) |
| Finance costs | 8 | **234,615** | 43,226 |
| (Gain)/loss on equity investments at fair value through profit or loss | 7 | **(10,207)** | 206,758 |
| Fair value gain on derivative financial instruments | 7 | **(109,121)** | – |
| Impairment of goodwill | 15 | **22,986** | – |
| Impairment provision for items of property and equipment | 7 | **37,852** | 12,695 |
| Net fair value gain on investment properties | 7 | **(5,198)** | (9,534) |
| Loss on disposal of items of property and equipment | 7 | **5,859** | 7,957 |
| Depreciation | 7 | **723,993** | 500,978 |
| Amortisation of intangible assets | 7 | **39,700** | 23,438 |
| Amortisation of prepaid land lease payments | 7 | **23,074** | 1,979 |
| Gain on compensation received | | **(81,915)** | – |
| Equity-settled share option expense | 33 | **337** | 1,902 |
| | | **808,674** | 2,112,151 |
| Decrease in lease prepayments and deposits | | **73,719** | 28,044 |
| Decrease in inventories | | **1,391,670** | 750,395 |
| Decrease in trade and bills receivables | | **71,326** | 78,255 |
| Decrease/(increase) in prepayments, deposits and other receivables | | **125,413** | (859,356) |
| Decrease in amounts due from related companies | | **1,571,624** | 38,270 |
| Decrease in pledged deposits for bills payable | | **271,035** | 247,865 |
| Decrease in trade and bills payables | | **(615,329)** | (1,589,499) |
| Increase in customers' deposits, other payables and accruals | | **330,614** | 166,573 |
| (Decrease)/increase in amounts due to related companies | | **(1,267,105)** | 506,936 |
| Cash generated from operations | | **2,761,641** | 1,479,634 |
| Interest received | | **231,794** | 253,999 |
| Income tax paid | | **(308,240)** | (420,906) |
| **Net cash flows from operating activities** | | **2,685,195** | 1,312,727 |

## Consolidated Statement of Cash Flows

Year ended 31 December 2016

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Net cash flows from operating activities** | | **2,685,195** | 1,312,727 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property and equipment | | **(745,607)** | (566,786) |
| Proceeds from disposal of items of property and equipment | | **131,400** | 80,071 |
| Net proceeds from acquisition of subsidiaries | 5 | **481,042** | – |
| Prepaid land lease payments | | **(131,283)** | (1,142,728) |
| Purchases of equity investments at fair value through profit or loss | | **(281,323)** | (1,235,900) |
| Purchases of available-for-sale investments | | **(391,711)** | (164,671) |
| Investment in entrusted loans | | **(500,000)** | – |
| Investments in associates | | **(17,000)** | – |
| Refund from Huishang Bank Corporation Limited for share subscription | | **–** | 1,411,973 |
| **Net cash flows used in investing activities** | | **(1,454,482)** | (1,618,041) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repurchase of shares | | **(650,893)** | – |
| Proceeds from the issuance of corporate bonds | | **8,834,767** | – |
| Capital injection from non-controlling shareholders | | **5,989** | 5,280 |
| Proceeds from new bank loans | | **1,901,342** | 2,694 |
| Repayment of bank loans | | **(4,574,844)** | (2,469,729) |
| (Increase)/decrease in pledged deposits for bank loans | | **(703,600)** | 1,944,127 |
| Dividends paid | | **(284,211)** | (509,633) |
| Interest paid | | **(27,739)** | (43,226) |
| Exercise of share options | | **–** | 3,517 |
| **Net cash flows from/(used in) financing activities** | | **4,500,811** | (1,066,970) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **5,731,524** | (1,372,284) |
| Cash and cash equivalents at beginning of year | | **7,437,717** | 8,794,112 |
| Effect of foreign exchange rate changes, net | | **67,511** | 15,889 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **13,236,752** | 7,437,717 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 27 | **12,603,870** | 6,835,713 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **632,882** | 602,004 |
| | | **13,236,752** | 7,437,717 |

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION

GOME Electrical Appliances Holding Limited (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The principal activities of the Company and its subsidiaries (the "Group") are the operation and management of networks of retail stores of electrical appliances and consumer electronic products and online sale of electronic products in the People's Republic of China (the "PRC").

### Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Capital Automation (BVI) Limited | British Virgin Islands/ Hong Kong | US$50,000 | 100 | – | Investment holding |
| Grand Hope Investment Limited | British Virgin Islands/ Hong Kong | US$1 million | 100 | – | Investment holding |
| China Paradise Electronics Retail Limited | Cayman Islands | HK$235,662,979 | 100 | – | Investment holding |
| China Eagle Management Limited | Hong Kong | HK$10,000 | 100 | – | Note (v) |
| Hong Kong Punching Centre Limited | Hong Kong | HK$100,000 | – | 100 | Property holding |
| Ocean Town Int'l Inc. | British Virgin Islands/ Hong Kong | US$50,000 | – | 100 | Investment holding |
| GOME Appliance Company Limited (viii) 國美電器有限公司 | PRC | RMB1 billion | – | 100 | Note (vi) |
| Tianjin GOME Electrical Appliance Company Limited (i) 天津國美電器有限公司 | PRC | RMB40 million | – | 100 | Note (iii) |
| Chongqing GOME Electrical Appliance Company Limited (i) 重慶國美電器有限公司 | PRC | RMB20 million | – | 100 | Note (iii) |

## Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Chengdu GOME Electrical Appliance Company Limited (i) 成都國美電器有限公司 | PRC | RMB20 million | – | 100 | Note (iii) |
| Xi'an GOME Electrical Appliance Company Limited (i) 西安國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Kunming GOME Electrical Appliance Company Limited (i) 昆明國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Shenzhen GOME Electrical Appliance Company Limited (i) 深圳國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Fuzhou GOME Electrical Appliance Company Limited (i) 福州國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Guangzhou GOME Electrical Appliance Company Limited (i) 廣州市國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Wuhan GOME Electrical Appliance Company Limited (i) 武漢國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Shenyang GOME Electrical Appliance Company Limited (i) 瀋陽國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Jinan GOME Electrical Appliance Company Limited (i) 濟南國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Qingdao GOME Electrical Appliance Company Limited (i) 青島國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Kunming GOME Logistics Company Limited (i)<br>昆明國美物流有限公司 | PRC | RMB8 million | – | 100 | Note (iv) |
| Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited (i)<br>常州金太陽至尊電器有限公司 | PRC | RMB50 million | – | 100 | Note (iii) |
| Beijing Pengze Real Estate Company Limited (i)<br>北京鵬澤置業有限公司 | PRC | RMB10 million | – | 100 | Property holding |
| Shenyang Pengrun GOME Electrical Appliance Company Limited (i)<br>瀋陽鵬潤國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Jiangsu Pengrun GOME Electrical Appliance Company Limited (i)<br>江蘇鵬潤國美電器有限公司 | PRC | RMB20 million | – | 100 | Note (iii) |
| Eagle Electrical Appliance Company Limited (i)<br>鵬潤電器有限公司 | PRC | RMB100 million | – | 100 | Investment holding |
| Shenzhen eHome Commercial Chain Company Limited (i)<br>深圳易好家商業連鎖有限公司 | PRC | RMB20 million | – | 100 | Note (iii) |
| Gansu GOME Logistics Company Limited (i)<br>甘肅國美物流有限公司 | PRC | RMB10 million | – | 100 | Note (iv) |
| Nanjing Pengze Investment Company Limited (i)<br>南京鵬澤投資有限公司 | PRC | RMB156 million | – | 100 | Property holding |

## Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Yongle (China) Electronics Retail Company Limited (ii)<br>永樂（中國）電器銷售有限公司 | PRC | RMB220 million | – | 100 | Note (iii) |
| Guangdong Yongle Electronics Retail Company Limited (i)<br>廣東永樂家用電器有限公司 | PRC | RMB30 million | – | 100 | Note (iii) |
| Henan Yongle Electronics Retail Company Limited (i)<br>河南永樂生活電器有限公司 | PRC | RMB20 million | – | 100 | Note (iii) |
| Jiangsu Yongle Electronics Retail Company Limited (i)<br>江蘇永樂家用電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Shanghai Yongle Communication Equipment Company Limited (i)<br>上海永樂通訊設備有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Sichuan Yongle Electronics Retail Company Limited (i)<br>四川永樂家用電器有限公司 | PRC | RMB20 million | – | 100 | Note (iii) |
| Xiamen Yongle Siwen Electronics Retail Company Limited (i)<br>廈門永樂思文家電有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Zhejiang Yongle Electronics Retail Company Limited (i)<br>浙江永樂家用電器有限公司 | PRC | RMB15 million | – | 100 | Note (iii) |
| Shaanxi Cellstar Telecommunication Retail Chain Company Limited (i)<br>陝西蜂星電訊零售連鎖有限責任公司 | PRC | RMB10 million | – | 100 | Note (vii) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Shandong Longji Island Construction Company Limited (i)<br>山東龍脊島建設有限公司 | PRC | RMB10 million | – | 100 | Investment holding |
| Tianjin Pengze Logistics Company Limited (i) (viii)<br>天津鵬澤物流有限公司 | PRC | US$50 million | – | 100 | Note (iv) |
| Beijing Dazhong Hengxin Ruida Logistics Company Limited (i)<br>北京市大中恒信瑞達商貿有限公司 | PRC | RMB200 million | – | 100 | Note (iv) |
| Tianjin Hengxing Ruida Logistics Company Limited (i)<br>天津恒信瑞達物流有限公司 | PRC | RMB20 million | – | 100 | Note (iv) |
| Kuba Technology (Beijing) Co., Ltd. ("Kuba") (i)<br>庫巴科技(北京)有限公司 | PRC | RMB83 million | – | 60 | Note (ix) |
| GOME-on-line e-Commerce Co., Ltd. ("GOME-on-line") (i)<br>國美在綫電子商務有限公司 | PRC | RMB83 million | – | 60 | Note (ix) |
| GOME Japan Company Limited | Japan | JPY200 million | – | 51 | Note (ix) |
| Beijing Dazhong Home Appliances Retail Co., Ltd. (i)<br>北京市大中家用電器連鎖銷售有限公司 | PRC | RMB200 million | – | 100 | Note (iii) |
| GOME International Trading Company Limited<br>國美海外購有限公司 | Hong Kong | HK$1 | – | 100 | Note (ix) |
| Shantou Shengyuan Yuexin Technology Co., Ltd. (i)<br>汕頭盛源悅信科技有限公司 | PRC | US$30 million | – | 100 | Notes (iv)/(v) |

## Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| GOME Yunzhi Technology Co., Ltd. (i) 國美雲智科技有限公司 | PRC | RMB50 million | – | 100 | Note (xi) |
| GOME Big Data Holdings (H.K.) Limited 國美大數據（香港）控股有限公司 | Hong Kong | HK$1 | 100 | – | Investment holding |
| Beijing GOME Anxun Technology Co., Ltd. (i) 北京國美安迅科技有限公司 | PRC | RMB50 million | – | 100 | Note (x) |
| Shenyang GOME Anxun Technology Co., Ltd. (i) 瀋陽國美安迅科技有限公司 | PRC | RMB50 million | – | 100 | Note(x) |
| Beijing GOME Steward IT Co., Ltd. (i) 北京國美管家信息技術有限公司 | PRC | RMB10 million | – | 65 | Note(x) |
| Ningbo GOME Anxun Technology Co., Ltd. (i) 寧波國美安迅科技有限公司 | PRC | RMB50 million | – | 100 | Note(x) |
| GOME Big Data Technology Co., Ltd. (i) 國美大數據科技有限公司 | PRC | RMB50 million | – | 100 | Note(xi) |
| Chengdu GOME Big Data Technology Co., Ltd. (i) 成都國美大數據科技有限公司 | PRC | RMB30 million | – | 100 | Note(xi) |
| Tianjin GOME Equity Investment Management Co., Ltd. (i) 天津國美股權投資管理有限公司 | PRC | RMB30 million | – | 100 | Investment holding |
| Tianjin GOME Xinchang Equity Investment Management Co., Ltd. (i) 天津國美信昌股權投資管理有限公司 | PRC | RMB10 million | – | 100 | Investment holding |

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Dazi GOME Xinze Entrepreneurship Investment Management Co., Ltd. (i)<br>達孜國美信澤創業投資管理有限公司 | PRC | RMB10 million | – | 100 | Investment holding |
| Tianjin GOME Xinchangda Equity Investment LLP<br>天津國美信昌達股權投資合伙企業（有限合伙） | PRC | RMB61 million | – | 100 | Investment holding |
| Artway Development Limited<br>藝偉發展有限公司 | British Virgin Islands | – | 100 | – | Investment holding |
| Beijing Jinzun Technology Development Co., Ltd. (i)<br>北京金尊科技發展有限公司 | PRC | RMB108.9 million | – | 100 | Investment holding |
| GOME Electrical Appliances Retail Co., Ltd. (i)<br>國美電器零售有限公司 | PRC | RMB100 million | – | 100 | Note (iii) |
| Beijing GOME Logistics Equipment Co., Ltd. (i)<br>北京國美物流有限公司 | PRC | RMB10 million | – | 100 | Note (iv) |
| Beijing Dingrui Property Co., Ltd. (i)<br>北京鼎鋭置業有限公司 | PRC | RMB10 million | – | 100 | Property holding |
| Anshan GOME Electrical Appliances Co., Ltd. (i)<br>鞍山國美電器有限公司 | PRC | RMB5 million | – | 100 | Note (iii) |
| Daqing GOME Electrical Appliances Co., Ltd. (i)<br>大慶國美電器有限公司 | PRC | RMB5 million | – | 100 | Note (iii) |
| Dalian Xinxundian Trading Co.,Ltd. (i)<br>大連新訊點貿易有限公司 | PRC | RMB500,000 | – | 100 | Note (vii) |

## Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Datong Century North Electrical Appliances Co., Ltd. (i) 大同世紀北方電器有限公司 | PRC | RMB5 million | – | 100 | Note (iii) |
| Guizhou GOME Electrical Appliances Co., Ltd. (i) 貴州國美電器有限公司 | PRC | RMB5 million | – | 100 | Note (iii) |
| Henan GOME Electrical Appliances Co., Ltd. (i) 河南省國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Hebei GOME Electrical Appliances Co., Ltd. (i) 河北國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Heilongjiang Black Swan Home Appliances Co., Ltd. (i) 黑龍江黑天鵝家電有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Jilin GOME Electrical Appliances Co., Ltd. (i) 吉林國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Jiangxi Pengrun GOME Electrical Appliances Co., Ltd.(i) 江西鵬潤國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Ningbo Zhe GOME Electrical Appliances Co., Ltd. (i) 寧波浙國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Nanning GOME Electrical Appliances Co., Ltd. (i) 南寧國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Nanning GOME Logistics Co., Ltd. (i) 南寧國美物流有限公司 | PRC | RMB6 million | – | 100 | Note (iv) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai GOME Electrical Appliances Co., Ltd. (i) 上海國美電器有限公司 | PRC | RMB40 million | – | 100 | Note (iii) |
| Shanxi GOME Electrical Appliances Co., Ltd. (i) 山西國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Wuxi GOME Electrical Appliances Co., Ltd. (i) 無錫國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Xiamen GOME Electrical Appliances Co., Ltd. (i) 廈門國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Xinjiang GOME Electrical Appliances Co., Ltd. (i) 新疆國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Zhejiang GOME Electrical Appliances Co., Ltd. (i) 浙江國美電器有限公司 | PRC | RMB8 million | – | 100 | Note (iii) |
| Beijing Hengxin Damei Trading Co., Ltd. (i) 北京恒信達美商貿有限公司 | PRC | RMB5 million | – | 100 | Note (iv) |
| Tianjin GOME Hengxin Logistics Co., Ltd. (i) 天津國美恒信物流有限公司 | PRC | RMB20 million | – | 100 | Note (iii) |
| Beijing GOME Communication Equipment Co., Ltd. (i) 北京國美通訊設備有限公司 | PRC | RMB50 million | – | 100 | Note (iii) |
| Tianjin Shengyuan Pengda Logistics Co., Ltd. (i) 天津盛源鵬達物流有限公司 | PRC | RMB50 million | – | 100 | Note (iv) |

## Notes to Financial Statements

31 December 2016

### 1. CORPORATE AND GROUP INFORMATION *(Continued)*

**Information about subsidiaries** *(Continued)*

| Company name | Place of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Dalian GOME Electrical Appliances Co., Ltd. (i) 大連國美電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| Tianjin GOME Zhansheng Logistics Co., Ltd. (i) 天津國美戰聖物流有限公司 | PRC | RMB20 million | – | 100 | Note (iv) |
| Wuhai GOME Electrical Appliances Co., Ltd. (i) 烏海國美電器有限公司 | PRC | RMB5 million | – | 100 | Note (iii) |
| Nanchang GOME Electrical Appliances Co., Ltd. (i) 南昌國美電器有限公司 | PRC | RMB1 million | – | 100 | Note (iii) |
| Jiangyin GOME Electrical Appliances Co., Ltd. (i) 江陰國美電器有限公司 | PRC | RMB5 million | – | 100 | Note (iii) |
| Luohe GOME Electrical Appliances Co., Ltd. (i) 漯河國美電器有限公司 | PRC | RMB5 million | – | 100 | Note (iii) |
| Beijing GOME Baotou Electrical Appliance Co., Ltd. (i) 北京國美包頭電器有限公司 | PRC | RMB10 million | – | 100 | Note (iii) |
| GOME Australia PTY. Ltd. | Australia | AUD1 million | – | 51 | Note (ix) |
| Chongqing Jiagou Co., Ltd. 重慶佳購科技有限公司 | PRC | US$5 million | – | 100 | Note (xi) |
| Chongqing Weijie Commerce Co., Ltd. 重慶微界商貿有限公司 | PRC | RMB10 million | – | 100 | Note (v) |
| Chongqing GOME Huashang Commerce Co., Ltd. 重慶國美華尚商貿有限公司 | PRC | RMB10 million | – | 100 | Note (v) |
| Shanghai GOME E-commerce Co., Ltd. 上海國美電子商務有限公司 | PRC | RMB50 million | – | 100 | Note (ix) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

Notes:

(i) Registered as private companies with limited liability under PRC law

(ii) Registered as a Sino-foreign equity joint venture under PRC law

(iii) Retailing of electrical appliances and consumer electronic products

(iv) Provision of logistics and procurement services

(v) Provision of business management services

(vi) Investment holding and retailing of electrical appliances and consumer electronic products

(vii) Retailing of mobile phones and accessories

(viii) Registered as wholly-foreign-owned enterprises under PRC law. The respective registered capital of these subsidiaries has been fully paid up

(ix) Online retailing of electrical appliances and consumer electronic products

(x) Provision of storage and delivery services

(xi) Provision of IT development and services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain other investments which are classified as available-for-sale financial assets and equity investments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

## Notes to Financial Statements

31 December 2016

### 2.1 BASIS OF PREPARATION *(Continued)*

**Basis of consolidation** *(Continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception* |
| Amendments to IFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations* |
| IFRS 14 | *Regulatory Deferral Accounts* |
| Amendments to IAS 1 | *Disclosure Initiative* |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Amendments to IAS 16 and IAS 41 | *Agriculture: Bearer Plants* |
| Amendments to IAS 27 (2011) | *Equity Method in Separate Financial Statements* |
| *Annual Improvements 2012-2014 Cycle* | Amendments to a number of IFRSs |

Except for the amendments to IFRS 10, IFRS 12 and IAS 28 (2011), amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

## Notes to Financial Statements

31 December 2016

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[2] |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2] |
| IFRS 9 | *Financial Instruments*[2] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 15 | *Revenue from Contracts with Customers*[2] |
| Amendments to IFRS 15 | *Clarifications to IFRS 15 Revenue from Contracts with Customers*[2] |
| IFRS 16 | *Leases*[3] |
| Amendments to IAS 7 | *Disclosure Initiative*[1] |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses*[1] |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration*[2] |
| Amendments to IAS 40 | *Transfers of Investment Property*[2] |
| Amendments to IFRSs | *Annual Improvements to IFRS Standards 2014-2016 Cycle*[5] |

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 No mandatory effective date yet determined but available for adoption

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

### (a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

**(b) Impairment**

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact on IFRS 15 upon adoption.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

## Notes to Financial Statements

31 December 2016

### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRIC 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS. The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The Group expects to adopt the amendments from 1 January 2018.

Amendments to IAS 40 clarifies when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The amendments will eliminate diversity in practice. The Group expects to adopt the amendments from 1 January 2018.

*Annual Improvements to IFRS Standards 2014-2016 Cycle* issued in December 2016 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* deletes short-term exemptions for first-time adopters. Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The Group expects to adopt the amendments from 1 January 2018.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

- IAS 28 *Investments in Associates and Joint Ventures* clarifies that measuring investees at fair value through profit or loss is an investment-by-investment choice. The amendments clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. The Group expects to adopt the amendments from 1 January 2018.

- IFRS 12 *Disclosure of Interests in Other Entities* clarifies the scope of the disclosure requirements in IFRS 12. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively. The Group expects to adopt the amendments from 1 January 2017.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments in associates and joint ventures** *(Continued)*

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations and goodwill *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

The Group measures its investment properties, certain other investments which are classified as available-for-sale financial assets and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Fair value measurement** *(Continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property and equipment and depreciation**

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life as follows:

| | |
|---|---|
| Buildings | 20 to 40 years |
| Leasehold improvements | The shorter of the remaining lease terms and five years, whichever is shorter |
| Equipment and fixtures | 4 to 15 years |
| Motor vehicles | 5 years |

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property and equipment and depreciation** *(Continued)*

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the Group's enterprise operating systems under construction, which are stated at cost less any impairment loss, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

**Investment properties**

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, changes in the values of the properties are dealt with as movements in the asset revaluation reserve. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

***Research and development costs***

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred to develop intangible assets is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure during the development. Development expenditure which does not meet these criteria is expensed when incurred.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

**Investments and other financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables, available-for-sale financial investments and financial assets at fair value through profit and loss, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments and other financial assets** *(Continued)*

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

***Available-for-sale financial investments***

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the other investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the other investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

## Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments and other financial assets** *(Continued)*

***Available-for-sale financial investments*** *(Continued)*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Derecognition of financial assets** *(Continued)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

## Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment of financial assets** *(Continued)*

***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and bills payables, financial liabilities included in customers’ deposits, other payables and accruals, amounts due to related companies and interest-bearing bank loans.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial liabilities** *(Continued)*

***Subsequent measurement***

The subsequent measurement of financial liabilities depends on the classification as follows:

***Loans and borrowings***

After initial recognition, interest-bearing loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Treasury shares**

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

**Inventories**

Inventories comprise merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value.

Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

## Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income tax** *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Government grants**

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- Income from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- Income from suppliers comprising promotion income, management fee income, display space leasing fees and product listing fees is recognised according to the underlying contract terms when these services have been rendered in accordance therewith;

- Management and purchasing service fee income, management fee income for air-conditioner installation and other service fee income are recognised when such services have been rendered;

- Rental income is recognised on a time proportion basis over the lease terms;

- Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

- Dividend income is recognised when the shareholders' right to receive payment has been established.

### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to the financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Share-based payments** *(Continued)*

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market condition or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Other employee benefits**

Salaries, bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution retirement plans are recognised as an expense in the statement of profit or loss as incurred.

Pursuant to the relevant PRC laws and regulations, the employees of the Group's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the salaries of their employees to the central pension scheme. The only obligation of these subsidiaries with respect to the central pension scheme is the ongoing required contributions.

Contributions made to the retirement benefit scheme are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Inventories*

The Group does not have a general provisioning policy on inventories based on ageing given the nature of inventories and the purchase return or exchange protections from suppliers. However, operational procedures are in place to monitor this risk as the majority of the Group's working capital is devoted to inventories. The Company reviews its inventory ageing on a periodical basis and compares the carrying values of the aged inventories with their respective net realisable values. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving inventories. In addition, physical counts are carried out on a periodical basis in order to determine whether allowance is needed in respect of any missing, obsolete or defective inventories identified.

#### *Operating lease arrangements – Group as lessee*

The Group has entered into commercial property leases for its retail business. The Group has determined that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Judgements *(Continued)*

***Tax provisions***

Determining tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

***Consolidation of Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances"), of which the Group is not the legal owner***

The Group considers that it has controlled Dazhong Appliances since 2007 through the loan and the management agreement even though it did not own any equity interest or voting rights until 31 March 2016. Pursuant to a series of agreements entered into between the Group (the "investor") and Beijing Zhansheng Investment Co., Ltd., the legal owner of Dazhong Appliances, the investor is responsible for the management and operation of Dazhong Appliances and has the rights to direct the relevant activities of it. In addition, the investor is exposed to variable returns from its involvement with Dazhong Appliances and has the ability to use its power over Dazhong Appliances to affect the amount of the investor's returns. On 31 March 2016, the Group obtained the approval from the Ministry of Commerce of the PRC for the acquisition, which signified a formalised ownership of the Group in Dazhong Appliances.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB14,324,966,000 (2015: RMB7,145,117,000). Further details are given in note 15.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

**Estimation uncertainty** *(Continued)*

***Estimation of fair value of investment properties***

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties as at 31 December 2016 was RMB605,030,000 (2015: RMB599,832,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

***Impairment of non-financial assets (other than goodwill)***

The Group assesses whether there are any indicators of impairment of all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

**Estimation uncertainty** *(Continued)*

***Deferred tax assets***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to tax losses at 31 December 2016 was RMB13,027,000 (2015: RMB11,280,000). The amount of unrecognised tax losses at 31 December 2016 was RMB6,113,289,000 (2015: RMB5,287,938,000). Further details are given in note 21 to the financial statements.

***Impairment of available-for-sale financial assets***

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2016, no impairment loss has been recognised for available-for-sale assets (2015: Nil). The carrying amount of available-for-sale assets was RMB1,007,046,000 (2015: RMB595,013,000).

***Assessment of useful lives of property and equipment***

The Group has estimated the useful lives of the property and equipment to be 4 to 40 years. Depreciation of items of property and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property and equipment as at 31 December 2016 was RMB6,644,941,000 (2015: RMB4,393,245,000). Further details are given in note 13 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the operation and management of network of retail stores of electrical appliances and consumer electronic products and online sale of electronic products in the PRC. The corporate office in Hong Kong does not earn revenues and is not classified as an operating segment.

Management monitors the results of the Group's operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that bank interest income, unallocated income, finance costs, gain or loss on equity investments at fair value through profit or loss and corporate and other unallocated expenses are excluded from this measurement.

Segment assets exclude other investments, deferred tax assets, equity investments at fair value through profit or loss, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

## Notes to Financial Statements

31 December 2016

### 4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and bonds payable as these liabilities are managed on a group basis.

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Segment revenue** | | |
| Sales to external customers | **76,695,025** | 64,595,127 |
| **Segment results** | **256,877** | 1,620,470 |
| *Reconciliation:* | | |
| Bank interest income | **231,794** | 253,999 |
| Unallocated income | **2,351** | 2,730 |
| Finance costs | **(234,615)** | (43,226) |
| Gain/(loss) on equity investments at fair value through profit or loss | **10,207** | (206,758) |
| Corporate and other unallocated expenses | **(108,121)** | (50,464) |
| Profit before tax | **158,493** | 1,576,751 |

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Segment assets** | **40,785,747** | 28,604,870 |
| *Reconciliation:* | | |
| Corporate and other unallocated assets | **21,016,382** | 12,982,915 |
| **Total assets** | **61,802,129** | 41,587,785 |
| **Segment liabilities** | **28,492,344** | 22,911,066 |
| *Reconciliation:* | | |
| Corporate and other unallocated liabilities | **12,334,558** | 1,988,357 |
| **Total liabilities** | **40,826,902** | 24,899,423 |
| **Other segment information** | | |
| Depreciation and amortisation | **786,767** | 526,395 |
| Capital expenditure* | **1,016,813** | 566,786 |

* Capital expenditure consists of additions to property and equipment and other intangible assets.

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

### Geographical information

#### *(a) Revenue from external customers*

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Mainland China | **76,695,025** | 64,595,127 |

The revenue information above is based on the location of the customers.

#### *(b) Non-current assets*

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Mainland China | **24,007,736** | 13,770,013 |
| Hong Kong | **38,552** | 34,377 |
| | **24,046,288** | 13,804,390 |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and other investments.

## 5. BUSINESS COMBINATION

(a) On 31 March 2016, the Group acquired 100% of the equity interests of Artway Development Limited and its subsidiaries (the "Target Group"), an unlisted group principally engaged in the retail sale of electrical appliances and consumer electronic products under the trademark "GOME Electrical Appliances" and related operations mainly in cities other than the designated cities of the PRC in which the Group already operates. The purchase consideration for the acquisition was made in the form of HK$1 billion of cash, issuance of 5.5 billion shares of the Company at a market price of HK$1.12 per share at the date of the acquisition and issuance of 2.5 billion warrants of the Company (note 35) at fair value of RMB227 million at the date of acquisition, which are exercisable into underlying shares of the Company at the initial exercise price of HK$2.15 per share.

## Notes to Financial Statements

31 December 2016

## 5. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

The fair values of the identifiable assets and liabilities of the Target Group as at the date of acquisition were as follows:

| | **Fair value recognised on acquisition** RMB'000 |
|---|---|
| Property and equipment | 2,133,987 |
| Other intangible assets | 229,740 |
| Lease prepayments and deposits | 63,625 |
| Deferred tax assets | 12,446 |
| Inventories | 2,821,624 |
| Trade and bills receivables | 44,795 |
| Prepayments, deposits and other receivables | 777,857 |
| Due from related companies | 1,621,322 |
| Pledged deposits | 1,069,336 |
| Cash and cash equivalents | 1,529,258 |
| Trade and bills payables | (5,222,804) |
| Customers' deposits, other payables and accruals | (795,048) |
| Interest-bearing bank loans | (3,610,801) |
| Due to related companies | (900,383) |
| Tax payable | (272,324) |
| Deferred tax liabilities | (297,577) |
| Total identifiable net liabilities acquired at fair value | (794,947) |
| Goodwill arising on acquisition | 6,987,869 |
| Satisfied by: | |
| Cash | 833,250 |
| Issuance of the Company's warrants | 226,852 |
| Issuance of the Company's shares | 5,132,820 |

An analysis of the cash flows in respect of the acquisition of the Target Group is as follows:

| | **RMB'000** |
|---|---|
| Cash consideration | (833,250) |
| Cash and cash equivalents acquired | 1,529,258 |
| Net inflow of cash and cash equivalents | 696,008 |

The Group incurred transaction costs of RMB21,885,000 for this acquisition. These transaction costs have been expensed and are included in other expense in the consolidated statement of profit or loss.

## 5. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

Since the acquisition on 31 March 2016, the Target Group contributed revenue of RMB14,464 million and profit of RMB135 million to the Group for the year.

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition. None of the recognised goodwill is expected to be deductible for income tax purposes.

(b) The principal activity of 騰達電器有限公司 ("Tengda Electrical Appliances Co., Ltd.") is the operation of retail stores for electrical appliances and consumer electronic products in Jiangxi Province in Mainland China (the "Tengda Business"). On 25 July 2016, the Group acquired the Tengda Business, which includes the operation of 62 retail stores and the related leasehold improvement and employees, for a cash consideration of RMB215 million.

The fair values of the acquired leasehold improvement and other identifiable net assets were considered to be not significant. The fair values of other identifiable assets of the Tengda Business as at the date of acquisition were as follows:

| | **Fair value recognised on acquisition** RMB'000 |
|---|---|
| Total identifiable net assets acquired at fair value | – |
| Goodwill arising on acquisition | 214,966 |
| Satisfied by: | |
| Cash | 214,966 |

The goodwill recognised above is attributed to the expected synergies and other benefits from this acquisition of the Tengda Business. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of the Tengda Business is as follows:

| | **RMB'000** |
|---|---|
| Cash consideration | 214,966 |
| Net outflow of cash and cash equivalents | 214,966 |

Since the acquisition on 25 July 2016, the Tengda Business contributed revenue of RMB216 million and loss RMB26 million to the Group for the year.

Had the business combinations taken place at the beginning of the year, the revenue and the loss of the Group for the year would have been RMB80,318 million and RMB5 million, respectively.

## Notes to Financial Statements

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## 6. REVENUE, OTHER INCOME AND GAINS

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

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

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of electrical appliances and consumer electronic products | | **76,695,025** | 64,595,127 |
| **Other income** | | | |
| Income from suppliers, net | | **389,405** | 461,105 |
| Management and purchasing service fees from the Target Group | *(i)* | **31,656** | 250,000 |
| Income from air-conditioner installation | | **192,764** | 149,188 |
| Gross rental income | | **297,474** | 311,958 |
| Government grants | *(ii)* | **177,079** | 163,397 |
| Other service fee income | | **340,263** | 271,270 |
| Income from compensation | | **104,037** | 14,170 |
| Other income from telecommunication service providers | | **89,432** | 171,963 |
| Commission income from providing on-line platforms | | **118,525** | 123,484 |
| Others | | **99,163** | 67,957 |
| | | **1,839,798** | 1,984,492 |
| **Gains** | | | |
| Fair value gain on investment properties | *14* | **5,198** | 9,534 |
| Fair value gain on derivative financial instruments | | **109,121** | – |
| Fair value gains, net: | | | |
| Equity investments at fair value through profit or loss | | **10,207** | – |
| | | **1,964,324** | 1,994,026 |

*Notes:*

(i) For the year ended 31 December 2016, the management service fees from the Target Group represented the transactions between the Group and the Target Group for the period from 1 January 2016 to 31 March 2016. For the purchasing service fee, the relevant agreement has not been renewed upon its expiry on 31 December 2015.

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

## Notes to Financial Statements

31 December 2016

## 7. PROFIT BEFORE TAX

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

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **66,318,216** | 55,082,038 |
| Depreciation | *13* | **723,993** | 500,978 |
| Amortisation of other intangible assets* | *16* | **39,700** | 23,438 |
| Amortisation of prepaid land lease payments | | **23,074** | 1,979 |
| Loss on disposal of items of property and equipment*** | | **5,859** | 7,957 |
| Impairment of goodwill*** | | **22,986** | – |
| (Gain)/loss on equity investments at fair value through profit or loss | | **(10,207)** | 206,758 |
| Minimum lease payments under operating leases | | **4,360,033** | 3,564,687 |
| Impairment provision for items of property and equipment*** | *13* | **37,852** | 12,695 |
| Fair value gain on derivative financial instruments | | **(109,121)** | – |
| Foreign exchange differences, net | | **35,418** | 10,770 |
| Auditors' remuneration | | | |
| – audit services | | **7,811** | 9,229 |
| – non-audit services | | **762** | 877 |
| Staff costs excluding directors' and chief executive's remuneration *(note 9)*: | | | |
| Wages, salaries and bonuses | | **2,597,935** | 2,119,882 |
| Pension scheme contributions** | | **615,472** | 486,881 |
| Social welfare and other costs | | **77,402** | 57,319 |
| Equity-settled share option expense | | **294** | 1,686 |
| | | **3,291,103** | 2,665,768 |
| Gross rental income | | **(297,474)** | (311,958) |
| Net fair value gain on investment properties | *14* | **(5,198)** | (9,534) |

*Notes:*

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

** At 31 December 2016, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2015: Nil).

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

## Notes to Financial Statements

31 December 2016

### 8. FINANCE (COSTS)/INCOME

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Finance costs: | | |
| Interest on bank loans | **(27,739)** | (43,226) |
| Interest on bonds payable | **(206,876)** | – |
| | **(234,615)** | (43,226) |
| Finance income: | | |
| Bank interest income | **231,794** | 253,999 |

### 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Fees | **2,394** | 2,640 |
| Other emoluments: | | |
| Salaries, allowances and other expenses | **1,743** | 1,812 |
| Equity-settled share option expense | **43** | 216 |
| Pension scheme contributions | **47** | 43 |
| | **1,833** | 2,071 |

During the year 2009, certain directors and chief executive were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of these options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Mr. Lee Kong Wai, Conway | | **342** | 402 |
| Mr. Ng Wai Hung | | **342** | 402 |
| Ms. Liu Hong Yu | | **342** | 399 |
| Mr. Wang Gao | *(ii)* | **342** | 167 |
| Mr. Sze Tsai Ping, Michael | *(iii)* | **–** | 232 |
| Mr. Chan Yuk Sang | *(iii)* | **–** | 232 |
| | | **1,368** | 1,834 |

*Notes:*

(i) There was no other emolument payable to the independent non-executive directors during the year (2015: Nil).

(ii) Mr. Wang Gao was appointed as an independent non-executive director of the Company with effect from 24 June 2015.

(iii) Mr. Sze Tsai Ping, Michael and Mr. Chan Yuk Sang retired as independent non-executive directors of the Company on 24 June 2015.

## Notes to Financial Statements

31 December 2016

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (b) Executive directors, non-executive directors and the chief executive

| 2016 | Fees RMB'000 | Salaries, allowances and other expenses RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Executive director: | | | | | |
| Mr. Zou Xiao Chun | – | 342 | – | – | 342 |
| | – | 342 | – | – | 342 |
| Non-executive directors: | | | | | |
| Mr. Zhang Da Zhong | 342 | – | – | – | 342 |
| Ms. Huang Xiu Hong | 342 | – | – | – | 342 |
| Mr. Yu Sing Wong | 342 | – | – | – | 342 |
| | 1,026 | – | – | – | 1,026 |
| Chief executive: | | | | | |
| Mr. Wang Jun Zhou | – | 1,401 | 43 | 47 | 1,491 |
| | 1,026 | 1,743 | 43 | 47 | 2,859 |

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (b) Executive directors, non-executive directors and the chief executive *(Continued)*

| 2015 | Notes | Fees RMB'000 | Salaries, allowances and other expenses RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Executive director: | | | | | | |
| Mr. Zou Xiao Chun | | – | 322 | – | – | 322 |
| | | – | 322 | – | – | 322 |
| Non-executive directors: | | | | | | |
| Mr. Zhu Jia | *(i)* | 35 | – | – | – | 35 |
| Ms. Wang Li Hong | *(i)* | 35 | – | – | – | 35 |
| Mr. Zhang Da Zhong | | 402 | – | – | – | 402 |
| Ms. Huang Xiu Hong | *(ii)* | 167 | – | – | – | 167 |
| Mr. Yu Sing Wong | *(ii)* | 167 | – | – | – | 167 |
| | | 806 | – | – | – | 806 |
| Chief executive: | | | | | | |
| Mr. Wang Jun Zhou | | – | 1,490 | 216 | 43 | 1,749 |
| | | 806 | 1,812 | 216 | 43 | 2,877 |

*Notes:*

(i) Mr. Zhu Jia and Ms. Wang Li Hong resigned as non-executive directors of the Company on 28 January 2015.

(ii) Ms. Huang Xiu Hong and Mr. Yu Sing Wong were appointed as non-executive directors of the Company with effect from 24 June 2015.

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (c) Five highest paid individuals

The five highest paid individuals during the year included the chief executive (2015: the chief executive). Details of the chief executive's remuneration are set out above. Details of the remuneration for the year of the remaining four (2015: four) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Salaries, allowances and other expenses | **5,663** | 5,542 |
| Pension scheme contributions | **162** | 154 |
| Equity-settled share option expense | **97** | 509 |
| | **5,922** | 6,205 |

The number of non-director and non-chief-executive highest paid individuals whose remuneration fell within the following band is as follows:

| | **Number of individuals** | |
|---|---|---|
| | **2016** | 2015 |
| HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,282,257 to RMB1,709,675) | **4** | 4 |

## 10. PENSION SCHEMES

All of the Group's PRC subsidiaries are required to participate in the employee retirement benefit schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees' salaries for the years ended 31 December 2016 and 2015.

All the Hong Kong subsidiaries of the Group are required to participate in the MPF scheme under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group is required to make contributions for those employees who are registered as permanent residents in Hong Kong and are within the scope of the relevant Hong Kong regulations at the lesser of HK$18,000 and 5% of the employees' salaries for the years ended 31 December 2016 and 2015.

The Group's contributions to pension schemes for the year ended 31 December 2016 amounted to approximately RMB615,519,000 (2015: RMB486,924,000).

## 11. INCOME TAX EXPENSE

An analysis of the provision for tax in the financial statements is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Current income tax | **230,455** | 651,977 |
| Deferred income tax *(note 21)* | **(17,767)** | (11,720) |
| Total tax charge for the year | **212,688** | 640,257 |

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

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

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2015: 25%) on their respective taxable income. During the year, 47 entities (2015: 26 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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

No provision for Hong Kong profits tax has been made for the Group for the year ended 31 December 2016 (2015: RMB41,000).

## 11. INCOME TAX EXPENSE *(Continued)*

A reconciliation of the tax expense applicable to profit or loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rate, is as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Hong Kong RMB'000 | % | Mainland China RMB'000 | % | Total RMB'000 |
| (Loss)/profit before tax | (83,983) | | 242,476 | | 158,493 |
| Income tax at the statutory tax rate | (13,857) | 16.5 | 60,619 | 25.0 | 46,762 |
| Tax effect of preferential tax rates | – | | (43,082) | | (43,082) |
| Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China | – | | 23,650 | | 23,650 |
| Income not subject to tax | (19,349) | | – | | (19,349) |
| Expense not deductible for tax | 22,084 | | 8,759 | | 30,843 |
| Tax losses utilised from previous years | – | | (109,824) | | (109,824) |
| Tax losses not recognised | 11,122 | | 272,566 | | 283,688 |
| Tax charge at the Group's effective rate | – | | 212,688 | | 212,688 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Hong Kong RMB'000 | % | Mainland China RMB'000 | % | Total RMB'000 |
| (Loss)/profit before tax | (142,026) | | 1,718,777 | | 1,576,751 |
| Income tax at the statutory tax rate | (23,434) | 16.5 | 429,694 | 25.0 | 406,260 |
| Tax effect of preferential tax rates | – | | (68,015) | | (68,015) |
| Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China | – | | 48,319 | | 48,319 |
| Income not subject to tax | (3,537) | | (28,479) | | (32,016) |
| Expense not deductible for tax | 9,157 | | 89,574 | | 98,731 |
| Tax losses utilised from previous years | (5) | | (77,180) | | (77,185) |
| Tax losses not recognised | 17,860 | | 246,303 | | 264,163 |
| Tax charge at the Group's effective rate | 41 | | 640,216 | | 640,257 |

## 11. INCOME TAX EXPENSE *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. At 31 December 2016, save for the withholding tax provided on the dividends declared out of the current year's profits by the Group's subsidiaries established in Mainland China, no deferred tax has been recognized for withholding taxes that would be payable on the remaining unremitted earnings in these subsidiaries that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized for approximately RMB8,068,348,000 at 31 December 2016 (2015: RMB7,943,310,000).

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 20,797,082,000 (2015: 16,960,613,000) in issue during the year.

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

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 as the impact of the warrants and share options outstanding had no dilutive effect on the basic earnings per share amounts presented.

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

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation | **325,139** | 1,207,963 |

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### 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

| | Number of shares | |
|---|---|---|
| | **2016** | 2015 |
| | **'000** | '000 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation | **20,797,082** | 16,960,613 |

### 13. PROPERTY AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Equipment and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2016** | | | | | | |
| At 31 December 2015 and 1 January 2016: | | | | | | |
| Cost | 3,701,118 | 2,071,229 | 1,671,219 | 91,913 | 166,313 | 7,701,792 |
| Accumulated depreciation and impairment | (802,847) | (1,384,750) | (1,045,785) | (75,165) | – | (3,308,547) |
| Net carrying amount | 2,898,271 | 686,479 | 625,434 | 16,748 | 166,313 | 4,393,245 |
| At 1 January 2016, net of accumulated depreciation and impairment: | 2,898,271 | 686,479 | 625,434 | 16,748 | 166,313 | 4,393,245 |
| Additions | 301,501 | 393,403 | 114,098 | 10,675 | 197,136 | 1,016,813 |
| Acquisition of subsidiaries | 1,738,558 | 338,977 | 51,238 | 5,214 | – | 2,133,987 |
| Disposals | – | (100,683) | (32,917) | (3,659) | – | (137,259) |
| Impairment | – | (37,852) | – | – | – | (37,852) |
| Depreciation provided during the year | (150,877) | (341,826) | (225,774) | (5,516) | – | (723,993) |
| Transfers from construction in progress | – | – | 174,505 | – | (174,505) | – |
| At 31 December 2016, net of accumulated depreciation and impairment | 4,787,453 | 938,498 | 706,584 | 23,462 | 188,944 | 6,644,941 |
| At 31 December 2016: | | | | | | |
| Cost | 5,915,249 | 2,994,261 | 2,078,640 | 108,854 | 188,944 | 11,285,948 |
| Accumulated depreciation and impairment | (1,127,796) | (2,055,763) | (1,372,056) | (85,392) | – | (4,641,007) |
| Net carrying amount | 4,787,453 | 938,498 | 706,584 | 23,462 | 188,944 | 6,644,941 |

## 13. PROPERTY AND EQUIPMENT *(Continued)*

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Equipment and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| 31 December 2015 | | | | | | |
| At 1 January 2015: | | | | | | |
| Cost | 3,690,192 | 1,927,122 | 1,521,006 | 90,050 | 93,255 | 7,321,625 |
| Accumulated depreciation and impairment | (674,633) | (1,258,010) | (898,093) | (73,655) | – | (2,904,391) |
| Net carrying amount | 3,015,559 | 669,112 | 622,913 | 16,395 | 93,255 | 4,417,234 |
| At 1 January 2015, net of accumulated depreciation and impairment | 3,015,559 | 669,112 | 622,913 | 16,395 | 93,255 | 4,417,234 |
| Additions | – | 238,557 | 159,667 | 11,474 | 157,088 | 566,786 |
| Disposals | – | (72,900) | (12,840) | (2,288) | – | (88,028) |
| Impairment | – | (12,695) | – | – | – | (12,695) |
| Depreciation provided during the year | (128,214) | (135,595) | (228,336) | (8,833) | – | (500,978) |
| Transfers from investment properties | 10,926 | – | – | – | – | 10,926 |
| Transfers from construction in progress | – | – | 84,030 | – | (84,030) | – |
| At 31 December 2015, net of accumulated depreciation and impairment | 2,898,271 | 686,479 | 625,434 | 16,748 | 166,313 | 4,393,245 |
| At 31 December 2015: | | | | | | |
| Cost | 3,701,118 | 2,071,229 | 1,671,219 | 91,913 | 166,313 | 7,701,792 |
| Accumulated depreciation and impairment | (802,847) | (1,384,750) | (1,045,785) | (75,165) | – | (3,308,547) |
| Net carrying amount | 2,898,271 | 686,479 | 625,434 | 16,748 | 166,313 | 4,393,245 |

Certain of the buildings of the Group in Mainland China were pledged as security for bills payable (note 28) and interest-bearing bank loans (note 30) of the Group as at 31 December 2016. The aggregate carrying value of the Group's pledged buildings attributable to the Group as at 31 December 2016 amounted to RMB1,948,829,000 (31 December 2015: RMB1,164,024,000).

The recoverable amount was Nil for those impaired assets as at 31 December 2015 and 31 December 2016.

## Notes to Financial Statements

31 December 2016

### 14. INVESTMENT PROPERTIES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **599,832** | 601,224 |
| Net gain from a fair value adjustment | **5,198** | 9,534 |
| Transfer to owner-occupied properties *(note 13)* | **–** | (10,926) |
| Carrying amount at 31 December | **605,030** | 599,832 |

Investment properties comprise commercial properties in Mainland China and an industrial property and a car park in Hong Kong that are leased to third parties.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Beijing Northern Yashi Assets Appraisal Co., Ltd. and B.I. Appraisals Limited, independent firms of professionally qualified valuers, using the income approach and direct comparison approach, as at 31 December 2016. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The Group's management has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

As at 31 December 2016, investment properties of approximately RMB34,885,000 (31 December 2015: RMB30,412,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB570,145,000 (31 December 2015: RMB569,420,000) are located in Mainland China under medium term leases.

Certain of the investment properties of the Group in Mainland China were pledged as security for bills payable (note 28) and interest-bearing bank loans (note 30) of the Group as at 31 December 2016. The aggregate fair value of the Group's the pledged investment properties as at 31 December 2016 amounted to RMB481,397,000 (31 December 2015: RMB369,986,000).

## 14. INVESTMENT PROPERTIES *(Continued)*

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | Fair value measurement as at 31 December 2016 using | | | |
|---|---|---|---|---|
| | Quoted price in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Recurring fair value measurement for: | | | | |
| Commercial properties | – | – | 570,145 | 570,145 |
| Industrial property and car park | – | – | 34,885 | 34,885 |
| | – | – | 605,030 | 605,030 |

| | Fair value measurement as at 31 December 2015 using | | | |
|---|---|---|---|---|
| | Quoted price in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Recurring fair value measurement for: | | | | |
| Commercial properties | – | – | 569,420 | 569,420 |
| Industrial property and car park | – | – | 30,412 | 30,412 |
| | – | – | 599,832 | 599,832 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

## Notes to Financial Statements

31 December 2016

### 14. INVESTMENT PROPERTIES *(Continued)*

**Fair value hierarchy** *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | Commercial properties RMB'000 | Industrial property and car park RMB'000 |
|---|---|---|
| Carrying amount at 1 January 2015 | 575,190 | 26,034 |
| Net gain from a fair value adjustment recognised in other income and gains in profit or loss | 5,156 | 4,378 |
| Transfer to owner-occupied properties | (10,926) | – |
| Carrying amount at 31 December 2015 and 1 January 2016 | 569,420 | 30,412 |
| Net gain from a fair value adjustment recognised in other income and gains in profit or loss | **725** | **4,473** |
| Carrying amount at 31 December 2016 | **570,145** | **34,885** |

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| | Valuation technique | Significant unobservable inputs | Range 2016 | 2015 |
|---|---|---|---|---|
| Commercial properties | Income approach | Estimated rental value (RMB per square metre and per month) | **37.5 – 285.0** | 37.5 – 240.0 |
| | | Rental growth (per annum) | **1.5% – 2%** | 2% – 3% |
| | | Long term vacancy rate | **3% – 5%** | 3% – 5% |
| | | Discount rate | **6%** | 6% |

| | Valuation technique | Significant unobservable inputs | Unit price 2016 | 2015 |
|---|---|---|---|---|
| Industrial property and car park | Direct comparison approach | Market value (RMB per square metre) | **26,353** | 22,974 |

## 14. INVESTMENT PROPERTIES *(Continued)*

### Fair value hierarchy *(Continued)*

Under the income approach, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase or decrease in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase or decrease in the fair value of the investment properties. A significant increase or decrease in the long term vacancy rate and the discount rate in isolation would result in a significant decrease or increase in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the discount rate and long term vacancy rate.

Under the direct comparison approach, fair value is estimated by making reference to comparable sale evidence as available in the relevant market by taking into account the current rent and licence fee passing and the reversionary income potential of the property. A significant increase or decrease in the market value would result in a significant increase or decrease in the fair value of the investment properties.

## Notes to Financial Statements

31 December 2016

### 15. GOODWILL

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| At 1 January | | |
| Cost | **7,170,907** | 7,170,907 |
| Accumulated impairment | **(25,790)** | (25,790) |
| Net carrying amount | **7,145,117** | 7,145,117 |
| Cost at 1 January, net of accumulated impairment | **7,145,117** | 7,145,117 |
| Acquisition of the Target Group and the Tengda Business | **7,202,835** | - |
| Impairment during the year | **(22,986)** | - |
| At 31 December | **14,324,966** | 7,145,117 |
| At 31 December | | |
| Cost | **14,373,742** | 7,170,907 |
| Accumulated impairment | **(48,776)** | (25,790) |
| Net carrying amount | **14,324,966** | 7,145,117 |

## Notes to Financial Statements

31 December 2016

### 15. GOODWILL *(Continued)*

**Impairment testing of goodwill**

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| China Paradise Electronics Retail Limited ("China Paradise") 永樂（中國）電器銷售有限公司 | **3,920,393** | 3,920,393 |
| Beijing Dazhong Home Appliances Retail Co., Ltd. 北京市大中家用電器連鎖銷售有限公司 | **3,130,136** | 3,130,136 |
| Shaanxi Cellstar Telecommunication Retail Chain Company Limited 陝西蜂星電訊零售連鎖有限責任公司 | **60,428** | 60,428 |
| Shenzhen GOME Electrical Appliances Company Limited and Guangzhou GOME Electrical Appliances Company Limited 深圳國美電器有限公司和廣州市國美電器有限公司 | **22,986** | 22,986 |
| Shandong Longji Island Construction Company Limited 山東龍脊島建設有限公司 | **8,000** | 8,000 |
| Wuhan GOME Electrical Appliances Company Limited 武漢國美電器有限公司 | **7,300** | 7,300 |
| Jiangsu Pengrun GOME Electrical Appliance Company Limited and Nanjing Pengze Investment Company Limited 江蘇鵬潤國美電器有限公司和南京鵬澤投資有限公司 | **5,874** | 5,874 |
| Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") 北京匯海天韻商務諮詢有限公司 | **15,790** | 15,790 |
| Artway Development Limited 藝偉發展有限公司 | **6,987,869** | – |
| Tengda Technology Co. Ltd 江西騰達科技有限公司 | **214,966** | – |
| | **14,373,742** | 7,170,907 |
| Impairment | **(48,776)** | (25,790) |
| | **14,324,966** | 7,145,117 |

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections are prepared based on financial budgets as approved by management which cover a period of five years. The discount rate applied to the cash flow projections is 13.10% (2015: 13.34%).

## Notes to Financial Statements

31 December 2016

### 15. GOODWILL *(Continued)*

**Impairment testing of goodwill** *(Continued)*

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2015: 3%).

The impairment was mainly related to Shenzhen GOME Electrical Appliances Company Limited and Guangzhou GOME Electrical Appliances Company Limited and Huihai in the amount of RMB22,986,000 and RMB15,790,000, respectively.

**Key assumptions used in the value in use calculations**

The following describes the key assumptions of the cash flow projections.

| | |
|---|---|
| Store revenue: | the basis used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC. |
| Gross margins: | the gross profit margins are based on the historical margin achieved in the past. |
| Expenses: | the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level. |
| Discount rates: | the discount rates used are after tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group in the current year. |

**Sensitivity to changes in assumptions**

With regard to the assessment of the values in use of the respective cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the respective carrying values, including goodwill, of the cash-generating units to exceed the respective recoverable amounts.

## 16. OTHER INTANGIBLE ASSETS

| | Trademarks RMB'000 (i) |
|---|---|
| **31 December 2016** | |
| At 31 December 2015 and 1 January 2016: | |
| Cost | **440,959** |
| Accumulated amortisation | **(198,596)** |
| Net carrying amount | **242,363** |
| Cost at 1 January 2016, net of accumulated amortisation | **242,363** |
| Acquisition of the Target Group | **229,740** |
| Amortisation provided during the year | **(39,700)** |
| At 31 December 2016 | **432,403** |
| At 31 December 2016: | |
| Cost | **692,607** |
| Accumulated amortisation | **(260,204)** |
| Net carrying amount | **432,403** |
| **31 December 2015** | |
| At 31 December 2014 and 1 January 2015: | |
| Cost | 440,959 |
| Accumulated amortisation | (175,158) |
| Net carrying amount | 265,801 |
| Cost at 1 January 2015, net of accumulated amortisation | 265,801 |
| Amortisation provided during the year | (23,438) |
| At 31 December 2015 | 242,363 |
| At 31 December 2015: | |
| Cost | 440,959 |
| Accumulated amortisation | (198,596) |
| Net carrying amount | 242,363 |

## Notes to Financial Statements

31 December 2016

## 16. OTHER INTANGIBLE ASSETS *(Continued)*

(i) The cost mainly represents the fair value of the trademarks arising from the acquisition of 常州金太陽至尊電器有限公司 ("Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd.") of RMB25,915,000 in 2005, the fair value of the trademark arising from the acquisition of China Paradise of RMB129,000,000 in 2006, the fair value of the trademark arising from the acquisition of the retailing business of Dazhong Appliances of RMB284,319,000 and the fair value of the trademark arising from the acquisition of the Target Group of RMB229,740,000, which are amortised on the straight-line basis over management's estimate of their useful lives of 10 years, 20 years, 20 years and 10 years, respectively.

## 17. INVESTMENTS IN ASSOCIATES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Share of net assets | 17,000 | – |

The Group's shareholdings in the associates all comprise equity shares held through wholly-owned subsidiaries of the Company.

As the associates were newly registered near the end of year, there was no profit or comprehensive income during the year.

## 18. OTHER INVESTMENTS

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| Equity investments in Mainland China, at fair value | | | |
| Investment in Sanlian | *(i)* | 685,385 | 595,013 |
| Investment in MTC | *(ii)* | 300,730 | – |
| Equity investment, at cost | *(iii)* | 20,931 | – |
| | | 1,007,046 | 595,013 |

*Notes:*

(i) The balance as at 31 December 2016 represented the fair value of the Group's investments in 39,987,400 shares, representing approximately 15.84% of the outstanding issued shares of 三聯商社股份有限公司 ("Sanlian Commercial Co., Ltd." or "Sanlian"). Sanlian is a company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2016 and 31 December 2015. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income until the investments are derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss.

Of the seven directors of Sanlian, two were nominated by the Group as at 31 December 2016 (31 December 2015: two). With reference to Sanlian's memorandum and articles of association and by taking into account the current shareholding structure of Sanlian, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to Sanlian and thus the Group does not have control or significant influence over Sanlian.

As at 31 December 2016, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB17.14 (31 December 2015: RMB14.88) per share. During 2016, the gain in respect of the Group's other investments recognised in other comprehensive income amounted to RMB90,372,000 (2015: RMB212,992,000).

During 2016, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to Nil (2015: RMB28,726,100). The sales to Sanlian were made according to the published prices and conditions offered to other customers of the Group.

## 18. OTHER INVESTMENTS *(Continued)*

*Notes: (Continued)*

(ii) During 2016, the Group subscribed 30,193,814 shares of 深圳兆馳股份有限公司 ("Shenzhen MTC Co., Ltd." or "MTC") with a consideration of RMB370,780,000 representing approximately 1.67% of the issued shares. MTC is a company established in the PRC and listed on the Shenzhen Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2016. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income until the investments are derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss.

As at 31 December 2016, the fair value of these investments was based on the quoted market price of the listed shares, which was RMB9.96 per share. During 2016, the loss in respect of the Group's other investments recognised in other comprehensive income amounted to RMB70,050,000.

(iii) As at 31 December 2016, an unlisted equity investment with a carrying amount of RMB20,931,000 (2015: Nil) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 19. LEASE PREPAYMENTS AND DEPOSITS

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Prepaid land lease payments | *(i)* | **1,253,799** | 1,149,667 |
| Rental prepayments and deposits | *(ii)* | **268,149** | 274,166 |
| | | **1,521,948** | 1,423,833 |

*Notes:*

(i) Prepaid land lease payments

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Carrying amount at 1 January | | **1,177,679** | 36,930 |
| Additions | | **131,283** | 1,142,728 |
| Recognised during the year | | **(23,074)** | (1,979) |
| Carrying amount at 31 December | | **1,285,888** | 1,177,679 |
| Current portion included in prepayments, deposits and other receivables. | *24* | **(32,089)** | (28,012) |
| Non-current portion | | **1,253,799** | 1,149,667 |

The leasehold land is held under medium term leases and located in Mainland China.

(ii) The balances at 31 December 2016 and 2015 represented the non-current portion of rental prepayments and deposits.

## Notes to Financial Statements

31 December 2016

## 20. ENTRUSTED LOANS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Entrusted loans | 500,000 | – |

The entrusted loans are provided to Sanlian, repayable in full in October 2019 and bears interest at 6% per annum which is comparable to the market interest rate.

## 21. DEFERRED TAX

| | Note | Balance at 1 January 2016 RMB'000 | Acquisition of the Target Group RMB'000 | Recognised in the consolidated statement of profit or loss RMB'000 | Balance at 31 December 2016 RMB'000 |
|---|---|---|---|---|---|
| Deferred tax assets: | | | | | |
| Tax losses | *(i)* | 11,280 | 12,446 | (10,699) | 13,027 |
| Fair value adjustment on equity investments at fair value through profit or loss | | – | – | 14,368 | 14,368 |
| Fair value adjustment on investment properties | | 6,047 | – | (4) | 6,043 |
| Fair value adjustment on transfer of own-occupied properties to investment properties | | 22,813 | – | – | 22,813 |
| | | 40,140 | 12,446 | 3,665 | 56,251 |
| Deferred tax liabilities: | | | | | |
| Fair value adjustment arising from acquisition of subsidiaries | | 99,372 | 297,577 | (14,279) | 382,670 |
| Fair value adjustment on investment properties | | 21,096 | – | 177 | 21,273 |
| Fair value adjustment on transfer of own-occupied properties to investment properties | | 39,155 | – | – | 39,155 |
| | | 159,623 | 297,577 | (14,102) | 443,098 |

## 21. DEFERRED TAX *(Continued)*

| | Note | Balance at 1 January 2015 RMB'000 | Recognised in the consolidated statement of profit or loss RMB'000 | Balance at 31 December 2015 RMB'000 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Tax losses | *(i)* | 5,467 | 5,813 | 11,280 |
| Fair value adjustment on investment properties | | 3,515 | 2,532 | 6,047 |
| Fair value adjustment on transfer of owner-occupied properties to investment properties | | 22,813 | – | 22,813 |
| | | 31,795 | 8,345 | 40,140 |
| Deferred tax liabilities: | | | | |
| Fair value adjustment arising from acquisition of subsidiaries | | 106,568 | (7,196) | 99,372 |
| Fair value adjustment on investment properties | | 17,275 | 3,821 | 21,096 |
| Fair value adjustment on transfer of own-occupied properties to investment properties | | 39,155 | – | 39,155 |
| | | 162,998 | (3,375) | 159,623 |

*Note:*

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB684 million (2015: RMB617 million), that are available indefinitely, and in the PRC of RMB5,429 million (2015: RMB4,671 million), that will expire in one to five years, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2016, save for the withholding tax provided on the dividends declared out of the current year's profits by the Group's subsidiaries established in Mainland China, no deferred tax liabilities has been recognised for withholding taxes that would be payable on the remaining unremitted earnings in these subsidiaries that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised for approximately RMB8,068,348,000 at 31 December 2016 (2015: RMB7,943,310,000).

There are income tax consequences attaching to the payments of dividends by the Company to its shareholders.

## Notes to Financial Statements

31 December 2016

### 22. INVENTORIES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Merchandise for resale | **11,368,631** | 10,026,078 |
| Consumables | **237,327** | 149,926 |
| | **11,605,958** | 10,176,004 |

As at 31 December 2016, the Group's inventories amounting to RMB567 million (31 December 2015: RMB537 million) were pledged as security for the Group's bills payable (note 28).

### 23. TRADE AND BILLS RECEIVABLES

All of the Group's sales are on a cash basis except for certain bulk sales of merchandise which are credit sales. The credit term offered to customers is generally one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Management considers that there is no significant concentration of credit risk.

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Outstanding balances, aged: | | |
| Within 3 months | **126,513** | 143,538 |
| 3 to 6 months | **28,284** | 38,281 |
| 6 months to 1 year | **8,111** | 7,620 |
| | **162,908** | 189,439 |

The aged analysis of trade and bills receivables that are not considered to be impaired is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **63,257** | 71,769 |
| Less than 3 months past due | **77,398** | 90,910 |
| Over 3 months past due | **22,253** | 26,760 |
| | **162,908** | 189,439 |

## 23. TRADE AND BILLS RECEIVABLES *(Continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to mainly corporate customers which have long business relationship with the Group. Management is of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in credit quality of the individual debtors and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The balances are unsecured and non-interest-bearing.

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Prepayments | | **995,894** | 831,985 |
| Advances to suppliers | | **2,478,959** | 2,432,939 |
| Other deposits and receivables | | **1,224,259** | 785,821 |
| Receivables from Wuhan Yinhe | *(i)* | **–** | 166,586 |
| Current portion of prepaid land lease payments | *19* | **32,089** | 28,012 |
| | | **4,731,201** | 4,245,343 |

*Note:*

(i) This amount relates to a deposit for a property purchase from 武漢銀鶴置業有限公司 ("Wuhan Yinhe Property Co., Ltd." or "Wuhan Yinhe"") in Wuhan in 2008 for approximately RMB107 million. Wuhan Yinhe had since defaulted and failed to complete the delivery of the property in Wuhan (the "Property") to the Group. The Group took legal action against Wuhan Yinhe and the Intermediate People's Court of Huanggang City in Hubei province had ordered Wuhan Yinhe to repay the deposit plus interest and other damages to the Group for an aggregate amount of approximately RMB167 million in 2009 (the "Award").

During the year ended 31 December 2016, Hubei Higher People's Court granted an order that the Property to be transferred to the Group. The Group was required to pay an additional amount of RMB53 million which represented the fair valuation of the Property, less the amount of Award owed to the Group and additional compensation and penalty to be borne by Wuhan Yinhe. As at 31 December 2016, the Group had paid RMB30 million of the required amount. The remaining amount will be paid once the Group acquired the legal title of the Property.

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## 25. DUE FROM/TO RELATED COMPANIES

### Due from Related Companies

| | | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Management and purchasing service fee receivables from the Target Group* | *40(a)(ii)* | – | 43,048 |
| Other receivables from related companies** | | **239,392** | 146,646 |
| | | **239,392** | 189,694 |

* The balance mainly represented the management and purchasing service fees due from the Target Group. The aforesaid balance was interest-free, unsecured and has no fixed terms of repayment.

### Due to Related Companies

| | | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Payables to the Target Group | | – | 754,058 |
| Payables to the GOME Xinda | *40(a)(v)* | **131,852** | – |
| Payables to related companies** | | **529,575** | 274,091 |
| | | **661,427** | 1,028,149 |

** These balances were interest-free, unsecured and have no fixed terms of repayment.

## 26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Listed equity investments, at market value | **1,333,529** | 1,029,142 |

During the year, the Group had made an additional investments of approximately RMB281 million in stock markets. These equity investments were classified as financial assets designated upon initial recognition as at fair value through profit or loss by management and measured at market value. As at the date of approval of the financial statements, the market value of these equity investments was RMB1,451 million.

## 27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Cash and bank balances | **12,603,870** | 6,835,713 |
| Time deposits | **6,015,686** | 4,482,907 |
| | **18,619,556** | 11,318,620 |
| Less: Pledged time deposits for bills payable | **(4,679,204)** | (3,880,903) |
| Pledged time deposits for interest-bearing bank loans | **(703,600)** | – |
| | **(5,382,804)** | (3,880,903) |
| Cash and cash equivalents | **13,236,752** | 7,437,717 |

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB17,669,381,000 (31 December 2015: RMB11,014,524,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank balances of the Group earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group are made for varying periods of between one day and one year, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

## Notes to Financial Statements

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### 28. TRADE AND BILLS PAYABLES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Trade payables | **8,529,553** | 6,375,469 |
| Bills payable | **15,368,853** | 12,915,462 |
| | **23,898,406** | 19,290,931 |

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within 3 months | **15,185,137** | 10,976,395 |
| 3 to 6 months | **7,569,643** | 7,211,206 |
| Over 6 months | **1,143,626** | 1,103,330 |
| | **23,898,406** | 19,290,931 |

The Group's bills payable are secured by the pledge of certain of the Group's:

(i) time deposits (note 27);

(ii) inventories (note 22);

(iii) buildings (note 13); and

(iv) investment properties (note 14).

The trade and bills payables are non-interest-bearing and are normally settled on terms of one to six months.

## Notes to Financial Statements

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## 29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Customers' deposits | **610,920** | 448,289 |
| Deferred revenue *(note)* | **134,386** | 79,411 |
| Other payables and accruals | **3,187,205** | 2,064,286 |
| | **3,932,511** | 2,591,986 |

*Note:*

Deferred revenue represents the deferred of certain revenue amounts on sales transactions made to customers under the Group's customer loyalty points programme, and is released to the consolidated statement of profit or loss upon the customer's redemption of the loyalty points or upon the expiry date of the loyalty points. A reconciliation of the deferred revenue is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| At 1 January | **79,411** | 78,172 |
| Acquisition of the Target Group | **29,534** | – |
| Additions during the year | **885,659** | 772,539 |
| Release upon redemption | **(733,230)** | (707,985) |
| Release upon expiry | **(126,988)** | (63,315) |
| At 31 December | **134,386** | 79,411 |

## 30. INTEREST-BEARING BANK LOANS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Current: | | |
| Bank loans – secured | **520,164** | 971,512 |
| Non-current: | | |
| Bank loans – secured | **1,470,050** | – |
| | **1,990,214** | 971,512 |

## 30. INTEREST-BEARING BANK LOANS *(Continued)*

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans | | |
| Within one year or on demand | **520,164** | 971,512 |
| In the second year | **1,470,050** | – |
| | **1,990,214** | 971,512 |

The bank loans as at 31 December 2016 comprised a bank loan of US$286,490,000 (equivalent to RMB1,987,235,000) bearing interest at 3-month LIBOR plus 0.7%-0.9% and a bank loan of JPY50,000,000 (equivalent to RMB2,979,000) bearing interest at a fixed rate of 0.53%. Certain of the bank loans are secured by the Group's buildings (note 13) and investment properties (note 14).

The carrying amounts of the bank loans approximate to their fair values.

## 31. BONDS PAYABLE

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000 million, RMB300 million and RMB1,700 million on the Shanghai Stock Exchange, which are repayable on 7 January 2022, 28 January 2022 and 10 May 2022, respectively. These bonds could be redeemed by the holder and the earliest repayment dates are 7 January 2019, 28 January 2019 and 10 May 2019, respectively. On 8 December 2016, the Group issued non-public bonds at par values of RMB4,000 million, which is repayable on 8 December 2022. The bonds could be redeemed by the holder and the earliest repayment date is 8 December 2018. The interests are paid on annual basis.

After initial recognition, these bonds are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest expense calculated based on the effective interest rate was RMB206,876,000 which was included in finance costs of the consolidated statement of profit or loss.

Movements of the bonds payable are as follows:

| | RMB'000 |
|---|---|
| Nominal value of the bonds issued | 9,000,000 |
| Direct Transaction costs | (165,233) |
| Liabilities at the issuance date | 8,834,767 |
| Interest expenses on the bonds | 206,876 |
| Less: interest to be paid within one year | (192,158) |
| Included under non-current liabilities as at 31 December 2016 | 8,849,485 |

## 32. ISSUED CAPITAL

| Shares | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Issued and fully paid: | | |
| 21,967,465,422 (2015: 16,961,573,422) ordinary shares | **549,187** | 424,040 |

A summary of movements in the Company's share capital is as follows:

| Shares | Notes | Number of shares '000 | HK$'000 | Equivalent to RMB'000 |
|---|---|---|---|---|
| At 1 January 2015 | | 16,959,228 | 423,981 | 423,221 |
| Share options exercised | | 2,345 | 59 | 47 |
| At 31 December 2015 and 1 January 2016 | | 16,961,573 | 424,040 | 423,268 |
| Issue of shares | *(i)* | 5,500,000 | 137,500 | 114,572 |
| Shares repurchased | *(ii)* | (494,108) | (12,353) | (10,531) |
| At 31 December 2016 | | 21,967,465 | 549,187 | 527,309 |

*Notes:*

(i) 5.5 billion shares were issued for the acquisition of the Target Group at a market price of HK$1.12 per share at date of acquisition.

(ii) The Company repurchased 494,108,000 of its shares on the Stock Exchange for a total consideration of RMB393,398,000. The purchased shares were cancelled during the year and this cancellation resulted in the decrease of the issued shares of RMB10,531,000 and share premium of RMB382,867,000.

## 33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 15 April 2005 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees, executives and officers of the Company (including executive and non-executive directors of the Company) or any of the subsidiaries and business consultants, business partners, suppliers, customers, agents, financial or legal advisers, debtors and creditors who the board of directors of the Company considers, in its sole discretion, will contribute or have contributed to the Company or any of the subsidiaries.

The Scheme shall be valid and effective for the period (the "Scheme Period") commencing on the Adoption Date and ending on the day immediately preceding the tenth anniversary of the Adoption Date (both dates inclusive). The options granted prior to the end of the Scheme Period but not yet exercised shall continue to be valid and exercisable in accordance with the Scheme.

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### 33. SHARE OPTION SCHEME *(Continued)*

The maximum number of shares in respect of which options may be granted under the Scheme to any eligible participant shall not, in any 12-month period up to the offer date, exceed 1% of the number of shares of the Company in issue on the offer date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director of the Company who is the relevant eligible participant). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and in any event such period of time shall not exceed a period of ten years commencing on the commencement date, being the date upon which the option is deemed to be granted and accepted.

The exercise price in relation to each option offered shall be determined by the board of directors of the Company in its absolute discretion but in any event must not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date; (b) the average of the official closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (c) the nominal value of a share of the Company.

Share options do not confer right on the holders to dividends or to vote at shareholders' meetings.

According to the board resolution on 31 August 2012, changes were made to the Scheme including the exercise period of the share options and performance targets to vest the share options.

Upon the modification, the total increase in fair value of the then outstanding share options was approximately RMB6 million. This additional cost would be spread over the period from the date of modification until the vesting date of the modified award, which might not be the same as that of the original award.

Pursuant to the board of directors' resolution dated 11 November 2016, the board approved the extension of the exercise period to 15 November 2017.

## 33. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year:

| | **2016** Weighted average exercise price HK$ per share | **2016** Number of options '000 | 2015 Weighted average exercise price HK$ per share | 2015 Number of options '000 |
|---|---|---|---|---|
| At 1 January | **1.90** | **91,077** | 1.90 | 96,091 |
| Exercised during the year | **1.90** | **–** | 1.90 | (2,345) |
| Expired during the year | **1.90** | **(11,532)** | 1.90 | (2,669) |
| At 31 December | **1.90** | **79,545** | 1.90 | 91,077 |

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

| **2016** Number of options '000 | **Exercise price*** HK$ per share | **Exercise period** |
|---|---|---|
| 79,545 | 1.90 | On or before 15 November 2017 |

| 2015 Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 91,077 | 1.90 | On or before 15 November 2016 |

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

## Notes to Financial Statements

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### 33. SHARE OPTION SCHEME *(Continued)*

A Share option expense of RMB337,000 was recognised during the year ended 31 December 2016 (2015: RMB1,902,000). There were no share options exercised during the year.

At the end of the reporting period, the Company had 79,545,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 79,545,000 additional ordinary shares of the Company and additional share capital of HK$1,989,000 (equivalent to approximately RMB1,779,000) and share premium of HK$149,147,000 (equivalent to approximately RMB133,412,000) (before issuance costs).

At the date of approval of these consolidated financial statements, the Company had 76,886,000 share options outstanding under the Scheme, which represented approximately 0.35% of the Company's shares in issue as at that date.

### 34. TREASURY SHARES

| | Number of shares '000 | HK$'000 | Equivalent to RMB'000 |
|---|---|---|---|
| At 1 January 2016 | – | – | – |
| Repurchase | 288,153 | 298,128 | 257,495 |
| At 31 December 2016 | 288,153 | 298,128 | 257,495 |

During the year, the Group repurchased 288,153,000 shares from the open market with a cash consideration of RMB257,495,000 for the share option scheme. As at 31 December 2016, these shares have not been granted.

### 35. DERIVATIVE FINANCIAL INSTRUMENTS

On 31 March 2016 (the "Issue Date"), the Company issued 2.5 billion warrants (the "Warrants") as part of the consideration to acquire the Target Group (note 5). Pursuant to the acquisition agreement and the supplemental agreement, the Warrants are exercisable to subscribe for an aggregate of 2.5 billion shares of the Company at an initial exercise price of HK$2.15 per share at any time prior to the second anniversary of the Issue Date. The exercise price of the Warrants is subject to adjustment in accordance with the terms and conditions upon the occurrence of certain events including, among other things, subdivision or consolidation of shares, the making of a free distribution of shares, bonus issue, the declaration of a dividend in shares, capital distribution, issuance of options, rights or other warrants, and other dilutive events such as issue of new shares.

According to the terms and conditions of the Warrants, the Warrants were accounted for as a derivative liability at fair value on initial recognition and subsequent measurement. The fair values of the Warrants on the Issue Date and 30 June 2016 were RMB226,852,000 and RMB117,731,000, respectively. The change of fair value of RMB109,121,000 was recognised as a gain for the year.

## 35. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

On 1 July 2016, the terms and conditions of the Warrants were amended. The Warrants will be since then settled by exchanging a fixed amount of cash for a fixed number of shares of the Company. Therefore, the carrying amount of the Warrants of RMB117,731,000 was reclassified from a derivative liability to equity.

As of the date of approval of these financial statements, no warrant was exercised by the warrant holder.

## 36. RESERVES

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity of the financial statements.

### Statutory reserves

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profits after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserve funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of Mainland China domestic companies is required to transfer 10% of the profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of its registered capital of these companies. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

### Share option reserve

The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount may either be transferred to the share premium account when the related options are exercised, or be transferred to the retained earnings should the related options expire or be forfeited after the vesting date.

## Notes to Financial Statements

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### 37. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

| | **2016** | 2015 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| GOME-on-line | **40%** | 40% |

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Loss for the year allocated to non-controlling interests: | | |
| GOME-on-line | **(368,489)** | (266,752) |
| Accumulated balances of non-controlling interests at the reporting date: | | |
| GOME-on-line | **(1,281,493)** | (913,004) |

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

| **2016** | **GOME-on-line RMB'000** |
|---|---|
| Revenue | **10,697,435** |
| Loss for the year | **(921,222)** |
| Current assets | **1,309,048** |
| Non-current assets | **408,302** |
| Current liabilities | **(4,921,083)** |
| Net cash flows from operating activities | **556,050** |
| Net cash flows used in investing activities | **(134,031)** |
| Net increase in cash and cash equivalents | **422,019** |

| 2015 | GOME-on-line RMB'000 |
|---|---|
| Revenue | 6,738,502 |
| Loss for the year | (666,880) |
| Current assets | 981,726 |
| Non-current assets | 331,253 |
| Current liabilities | (3,595,489) |
| Net cash flows from operating activities | 146,223 |
| Net cash flows used in investing activities | (106,770) |
| Net increase in cash and cash equivalents | 39,453 |

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## 38. DIVIDENDS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Interim: | | |
| Cash dividend of Nil (2015: HK2.10 cents (equivalent to RMB1.62 fen)) per ordinary share | – | 274,769 |
| Proposed final: | | |
| Cash dividend of HK0.70 cent (equivalent to RMB0.59 fen) (2015: Cash dividend of HK1.50 cents (equivalent to RMB1.23 fen)) per ordinary share | **130,056** | 208,416 |
| | **130,056** | 483,185 |

The proposed final dividend is subject to the approval from the Company's shareholders at the forthcoming annual general meeting.

## 39. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

### (a) Operating lease arrangements

***As lessee***

The Group leases certain of its properties under operating lease arrangements. These have remaining lease terms ranging from 1 to 19 years and there are no restrictions placed upon the Group by entering into these lease agreements.

As at the end of the reporting period, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Within one year | **3,880,930** | 3,092,860 |
| In the second to fifth years, inclusive | **10,325,263** | 8,507,126 |
| After five years | **4,144,895** | 3,675,363 |
| | **18,351,088** | 15,275,349 |

## Notes to Financial Statements

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### 39. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(Continued)*

#### (a) Operating lease arrangements *(Continued)*

***As lessor***

The Group has leased its investment properties (note 14) and entered into commercial property sub-leases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms ranging from 1 to 14 years. A majority of the Group's leases include a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Within one year | **264,821** | 290,894 |
| In the second to fifth years, inclusive | **594,820** | 728,825 |
| After five years | **165,037** | 208,200 |
| | **1,024,678** | 1,227,919 |

#### (b) Capital commitments

In addition to the operating lease arrangements above, the Group had the following capital commitments at the end of the reporting period:

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Contracted, but not provided for | **137,147** | 70,658 |

## 40. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in the financial statements, the Group had the following significant transactions with the related parties.

### (a) The Group had the following ongoing transactions with related parties during the year:

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Sales to the GOME Retail* | *(i)* | **1,535,650** | 4,610,794 |
| Purchases from GOME Retail* | *(i)* | **426,128** | 1,023,620 |
| Provision of management and purchasing services to GOME Retail* | *(ii), 6* | **31,656** | 250,000 |
| Rental expenses and other expenses to GOME Property and Beijing GOME** | *(iii)* | **142,898** | 132,760 |
| Service fee to GOME Ruidong and Anxun Logistics (defined in (i) and (iv) below) | *(iv)* | **576,654** | 6,737 |
| Warehouse service income from Anxun Logistics | | **21,591** | – |
| Construction expenses to GOME Property | | **10,377** | – |
| Commission income from GOME Xinda*** | | **2,033** | – |
| Service income from GOME Financial**** | | **1,192** | – |
| Group suppliers factoring receivable from the Group with GOME Xinda *** | *(v)* | **–** | – |

* 國美電器零售有限公司 ("GOME Electrical Appliance Retail Co., Ltd." or "GOME Retail") is a wholly-owned subsidiary of the Target Group.

** 國美地產控股有限公司 ("GOME Property Co., Ltd." or "GOME Property") and 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") and their respective subsidiaries are owned by Mr. Wong Kwong Yu ("Mr. Wong"), a substantial shareholder of the Company.

The leased building area is owned by 北京新恒基房地產有限公司 ("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji"), which is owned by a close member of the family of Mr. Wong. In 2007, Beijing Xinhengji assigned ownership of the building to GOME Property and also authorised GOME Property to manage and operate the building area, including receiving and collecting the rentals for this building area. Completion of registration of ownership assignment with the relevant PRC authorities is still pending.

*** 國美信達保理有限公司 ("GOME Xinda Commercial Factoring Co., Ltd." or "GOME Xinda") is a subsidiary of 國美金融科技有限公司 ("國美金融科技", 00628.HK), which is a company listed in the Stock Exchange owned by Ms. Du Juan, who is the spouse of Mr. Wong.

**** 國美金控投資有限公司 ("GOME Financial Holdings Investment Co., Ltd." or "GOME Financial") is owned by Mr. Wong.

## Notes to Financial Statements

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## 40. RELATED PARTY TRANSACTIONS *(Continued)*

### (a) The Group had the following ongoing transactions with related parties during the year: *(Continued)*

*Notes:*

(i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and GOME Retail in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase costs from the Group's third party suppliers. The related party transactions represented the transactions between both parties up to 31 March 2016 as GOME Retail became a subsidiary of the Company since 1 April 2016. The related transactions have been eliminated within the Group after the consolidation of the Target Group since 1 April 2016.

The original master purchase and master supply agreements expired on 31 December 2015. The transitional agreements were entered into on 30 December 2015 as transitional arrangements for the Group to continue its existing operations pending approval by the independent Shareholders of the Company, among other things, the acquisition of the Target Group. The acquisition was then approved by the independent Shareholders of the Company on 22 January 2016. As the transitional agreements would expire on 29 February 2016, on 25 January 2016, the Group entered into (1) the master merchandise purchase agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by 北京國美銳動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong"), which is beneficially owned by Mr. Wong, and GOME Retail to the Company's subsidiaries (including 國美電器有限公司 ("GOME Appliance") and 國美在綫電子商務有限公司 ("GOME-on-line")) for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively, and (2) the master merchandise supply agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by GOME Appliance to GOME Ruidong, GOME Retail and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion (including the transactions between GOME Appliance and GOME-on-line, which is regarded as a connected person under the Listing Rules), respectively. Sales and purchases represented the transactions between the Group and GOME Retail for the period from 1 January 2016 to 31 March 2016.

The transactions constitute continuing connected transactions under the Listing Rules.

(ii) The Group provides management services to GOME Retail in respect of the retailing of electrical appliances and consumer electronic products. In addition, the Group negotiates with various suppliers for both the Group and GOME Retail on a centralised basis.

The management agreement was terminated after the acquisition of the Target Group.

The purchasing service agreement was not renewed upon its expiry on 31 December 2015.

The transactions constitute continuing connected transactions under the Listing Rules.

(iii) On 30 December 2015, the Group renewed the lease agreements with GOME Property and Beijing GOME with respect to the continuous use of the properties. During the year, the rental expenses incurred by the Group payable to GOME Property and Beijing GOME amounted to RMB127,130,000 (2015: RMB116,992,000) and RMB15,768,000 (2015: RMB15,768,000), respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

(iv) On 30 December 2015, the Group entered into (1) logistics services agreements pursuant to which GOME Ruidong and 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), which is beneficially owned by Mr. Wong, will provide the logistics services to GOME Appliance and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, and (2) the after-sales services agreement pursuant to which GOME Ruidong will provide the after-sales services to GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three years ended 31 December 2016, 2017 and 2018 not exceeding RMB150 million, RMB150 million and RMB150 million, respectively.

The transactions constitute continuing connected transactions under the Listing Rules.

## 40. RELATED PARTY TRANSACTIONS *(Continued)*

### (a) The Group had the following ongoing transactions with related parties during the year: *(Continued)*

*Notes: (Continued)*

(v) The suppliers of the Group contracted with GOME Xinda for factoring business and transferred the right of receivables to GOME Xinda. The amount of RMB132 million due to a related party recorded on the consolidated statement of financial position arose from this arrangement.

The transactions constitute continuing connected transactions under the Listing Rules but are exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

All the above related party transactions were determined by mutual agreements between the involved parties after taking into account prevailing market prices. The board of directors of the Company confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

### (b) Commitments with related parties

On 20 December 2016, GOME Appliance, GOME-on-line and 北京國美管家信息技術有限公司 ("Beijing GOME House Manager Information Technology Co., Ltd." or "GOME House Manager") entered into a lease agreement with GOME Property for the continuing use of properties in Pengrun Building for 6 years commencing from 1 January 2017 to 31 December 2022. As the result, the Group had rental commitments with GOME Property amounting to RMB913,361,000 (31 December 2015: RMB116,992,000).

On 20 December 2016, GOME Appliance entered into a lease agreement with Beijing GOME for the continuing use of a property commencing from 1 January 2017 to 31 December 2017. As the result, the Group had rental commitments with Beijing GOME amounting to RMB16,097,000 (2015: RMB15,768,000).

### (c) Compensation of key management personnel of the Group:

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Fees | **2,394** | 2,640 |
| Other emoluments: | | |
| Salaries, allowances and other expense | **10,214** | 10,174 |
| Pension scheme contributions | **325** | 318 |
| Equity-settled share option expense | **164** | 838 |
| | **13,097** | 13,970 |

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### 2016

#### Financial assets

| | Loans and receivables RMB'000 | Financial assets at fair value through profit or loss RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Other investments | – | – | 1,007,046 | 1,007,046 |
| Entrusted loans | 500,000 | – | – | 500,000 |
| Equity investments at fair value through profit or loss | – | 1,333,529 | – | 1,333,529 |
| Trade and bills receivables | 162,908 | – | – | 162,908 |
| Financial assets included in prepayments, deposits and other receivables | 1,224,259 | – | – | 1,224,259 |
| Due from related companies | 239,392 | – | – | 239,392 |
| Pledged deposits | 5,382,804 | – | – | 5,382,804 |
| Cash and cash equivalents | 13,236,752 | – | – | 13,236,752 |
| | 20,746,115 | 1,333,529 | 1,007,046 | 23,086,690 |

#### Financial liabilities

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Bonds payable | 8,849,485 |
| Interest-bearing bank loans | 1,990,214 |
| Trade and bills payables | 23,898,406 |
| Financial liabilities included in customers' deposits, other payables and accruals | 2,377,455 |
| Due to related companies | 661,427 |
| | 37,776,987 |

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## 41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

**2015**

**Financial assets**

| | Loans and receivables RMB'000 | Financial assets at fair value through profit or loss RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Other investments | – | – | 595,013 | 595,013 |
| Equity investments at fair value through profit or loss | – | 1,029,142 | – | 1,029,142 |
| Trade and bills receivables | 189,439 | – | – | 189,439 |
| Financial assets included in prepayments, deposits and other receivables | 952,407 | – | – | 952,407 |
| Due from related companies | 189,694 | – | – | 189,694 |
| Pledged deposits | 3,880,903 | – | – | 3,880,903 |
| Cash and cash equivalents | 7,437,717 | – | – | 7,437,717 |
| | 12,650,160 | 1,029,142 | 595,013 | 14,274,315 |

**Financial liabilities**

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Interest-bearing bank loans | 971,512 |
| Trade and bills payables | 19,290,931 |
| Financial liabilities included in customers' deposits, other payables and accruals | 1,602,084 |
| Due to related companies | 1,028,149 |
| | 22,892,676 |

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Other investments | **986,114** | 595,013 | **986,114** | 595,013 |
| Equity investments at fair value through profit or loss | **1,333,529** | 1,029,142 | **1,333,529** | 1,029,142 |
| | **2,319,643** | 1,624,155 | **2,319,643** | 1,624,155 |

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies and short-term interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments. The fair values of entrusted loans, bonds payable and long-term interest-bearing bank loans are estimated by discounting the expected future cash flows using equivalent market interest rates. As the nominal interest rates approximate to the market interest rates, the fair values of bonds payable and long-term interest-bearing bank loans approximate to their carrying amounts.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices.

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

**Assets measured at fair value:**

**As at 31 December 2016**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Other investments | **986,114** | **–** | **–** | **986,114** |
| Equity investments at fair value through profit or loss | **1,333,529** | **–** | **–** | **1,333,529** |
| | **2,319,643** | **–** | **–** | **2,319,643** |

As at 31 December 2015

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Other investments | 595,013 | – | – | 595,013 |
| Equity investments at fair value through profit or loss | 1,029,142 | – | – | 1,029,142 |
| | 1,624,155 | – | – | 1,624,155 |

During the year ended 31 December 2016, there were no transfers into or out of Level 1 and Level 2, and no transfers into or out of Level 3.

**Liabilities measured at fair value:**

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 and 31 December 2015.

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## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than other investments, comprise entrusted loans, cash and cash equivalents, pledged deposits and interest-bearing bank loans. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, other receivables and payables and amounts due from/to related companies, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2016, the Group had bank borrowings of RMB1,990,214,000 with floating interest rates (2015: RMB971,512,000).

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Group's profit before tax (due to changes in finance costs).

| | **Increase/ (decrease) in basis points** | **(Decrease)/ increase in profit before tax RMB'000** |
|---|---|---|
| **2016** | | |
| If interest rate increases by | **5** | **(905)** |
| If interest rate decreases by | **(5)** | **905** |

| | Increase/ (decrease) in basis points | (Decrease)/ increase in profit before tax RMB'000 |
|---|---|---|
| 2015 | | |
| If interest rate increases by | 5 | (173) |
| If interest rate decreases by | (5) | 173 |

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Foreign currency risk

As at 31 December 2016, the Group had cash and bank deposits of RMB950,176,000 (2015: RMB304,096,000) and interest-bearing bank loans of RMB1,990,214,000 (2015: RMB971,512,000), which were denominated in foreign currencies, mainly in US$ and the Hong Kong dollar.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US$ and the Hong Kong dollar with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities). Other components of equity would not change.

| | Increase/ (decrease) in foreign currency rate | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| **2016** | | |
| If RMB weakens against US$ | **5%** | **(60,145)** |
| If RMB strengthens against US$ | **(5%)** | **60,145** |
| If RMB weakens against HK$ | **5%** | **7,918** |
| If RMB strengthens against HK$ | **(5%)** | **(7,918)** |

| | Increase/ (decrease) in foreign currency rate | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| 2015 | | |
| If RMB weakens against US$ | 5% | (37,818) |
| If RMB strengthens against US$ | (5%) | 37,818 |
| If RMB weakens against the HK$ | 5% | 3,852 |
| If RMB strengthens against the HK$ | (5%) | (3,852) |

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 23 to the financial statements.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, pledged deposits, other receivables, entrusted loans and amounts due from related companies, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different geographical regions.

### Liquidity risk

The Group monitors its risk to a shortage of funds based on the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade and bills payables, interest-bearing bank loans and bonds payable. Management has reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period, based on contractual undiscounted payments.

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Liquidity risk** *(Continued)*

| | Within 1 year RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|
| **2016** | | | |
| Bonds payable | **435,300** | **11,176,500** | **11,611,800** |
| Interest-bearing bank loans | **554,282** | **1,484,396** | **2,038,678** |
| Trade and bills payables | **23,898,406** | **–** | **23,898,406** |
| Financial liabilities included in customers' deposits, other payables and accruals | **2,377,455** | **–** | **2,377,455** |
| Due to related companies | **661,427** | **–** | **661,427** |
| | **27,926,870** | **12,660,896** | **40,587,766** |

| | Within 1 year RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|
| 2015 | | | |
| Interest-bearing bank loans | 971,512 | – | 971,512 |
| Trade and bills payables | 19,290,931 | – | 19,290,931 |
| Financial liabilities included in customers' deposits, other payables and accruals | 1,602,084 | – | 1,602,084 |
| Due to related companies | 1,028,149 | – | 1,028,149 |
| | 22,892,676 | – | 22,892,676 |

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from other investments (note 18) and also equity investments at fair value through profit or loss (note 26) as at 31 December 2016. The Group's listed investments were valued at market price as at 31 December 2016 and 31 December 2015.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and its highest and lowest points during the year were as follows:

| | **31 December 2016** | **High/low 2016** | 31 December 2015 | High/low 2015 |
|---|---|---|---|---|
| Shanghai – A Share Index | **3,104** | **3,539/ 2,638** | 3,539 | 5,178/ 2,851 |
| Shenzhen – A Share Index | **10,177** | **12,659/ 8,987** | 12,665 | 18,212/ 9,260 |
| Hong Kong – Hang Seng Index | **22,001** | **24,364/ 18,279** | 21,914 | 28,589/ 20,368 |

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Equity price risk** *(Continued)*

The following table demonstrates the sensitivity to 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the other equity investments, the impact is deemed to be on the other investment revaluation reserve and no account is given for factors such as impairment which might impact on the statement of profit or loss.

| | Carrying amount of equity investments RMB'000 | Increase/ decrease in profit before tax RMB'000 | Increase/ decrease in equity* RMB'000 |
|---|---|---|---|
| **2016** | | | |
| Investments listed in: | | | |
| Shanghai and Shenzhen – Available-for-sale | **986,114** | **–** | **98,611** |
| Shanghai and Shenzhen – Equity investments at fair value through profit or loss | **1,168,791** | **116,879** | **–** |
| Hong Kong – Equity investments at fair value through profit or loss | **164,738** | **16,474** | **–** |
| | **2,319,643** | **133,353** | **98,611** |
| 2015 | | | |
| Investments listed in: | | | |
| Shanghai – Available-for-sale | 595,013 | – | 59,501 |
| Shanghai and Shenzhen – Equity investments at fair value through profit or loss | 877,567 | 87,757 | – |
| Hong Kong – Equity investments at fair value through profit or loss | 151,575 | 15,158 | – |
| | 1,624,155 | 102,915 | 59,501 |

* Excluding retained earnings

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## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Capital management

The primary objective of the Group's capital management is to ensure that the Group has healthy capital structure in order to support the Group's stability and growth.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank loans, amounts due to related companies, trade and bills payables and customers' deposits, other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Bonds payable | 8,849,485 | – |
| Interest-bearing bank loans | 1,990,214 | 971,512 |
| Due to related companies | 661,427 | 1,028,149 |
| Trade and bills payables | 23,898,406 | 19,290,931 |
| Customers' deposits, other payables and accruals | 3,932,511 | 2,591,986 |
| Less: Cash and cash equivalents | (13,236,752) | (7,437,717) |
| Pledged deposits | (5,382,804) | (3,880,903) |
| Net debt | 20,712,487 | 12,563,958 |
| Equity attributable to owners of the parent | 22,486,159 | 17,825,949 |
| Total capital | 22,486,159 | 17,825,949 |
| Capital and net debt | 43,198,646 | 30,389,907 |
| Gearing ratio | 48% | 41% |

## 44. EVENTS AFTER THE REPORTING PERIOD

(i) On 3 March 2017, the Group and Barclays Bank PLC entered into a subscription agreement in connection with the issuance of US$400,000,000 5.0% bonds due in 2020. The estimated net proceeds of the bond issuance, after deduction of expenses, amounted to approximately US$393.0 million, which the Group intends to use for the Group's business operations overseas and other general corporate purposes overseas. The bonds have been listed and quoted on the Singapore Exchange Securities Trading Limited ("SGX-ST") since 13 March 2017.

(ii) On 23 January 2017, the Group entered into an agreement with (a) 北京鵬潤投資有限公司 (Beijing Eagle Investment Co., Ltd.), (b) 多邊金寶商業有限公司 ("Duobian Jinbao Commercial Company Limited"), (c) 天津國美互聯網資產交易中心有限公司 (Tianjin GOME Internet Assets Exchange Centre Company Limited"), and (d) 北京大康國際鞋城有限公司 ("Beijing Dakang International Shoes City Company Limited") (the "Vendors") pursuant to which the Group has conditionally agreed to acquire the RMB30,000,000 in the existing registered capital of the Target Company, representing 60% of the registered capital of 美信網絡技術有限公司 ("Meixin Network Technology Company Limited", a company incorporated in the PRC with limited liability) together with its subsidiaries (the "Target Company") from the Vendors at an aggregate consideration of RMB900,000,000. The Target Company is principally engaged in the business of a mobile social data platform. The transaction is expected to be completed before the end of March 2017. Upon completion of the acquisition, the Group will have 60% shareholdings of the Target Company. The Target Company will become a non wholly-owned subsidiary of the Group and the Target Company's financial results will then be consolidated into the financial statements of the Group. The Group is in the process of quantifying the impact of the acquisition.

(iii) On 25 January 2017, Sanlian transferred certain retail-related inventories, property and equipment to 山東大中電器有限公司 ("Shandong Dazhong Electrical Co., Ltd." or "Shandong Dazhong"), a wholly owned subsidiary of the Group, with a cash consideration of RMB55 million. The Group is in the process of assessing the fair values of the related assets and liabilities acquired from this transaction.

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **11,730,828** | 5,389,943 |
| Total non-current assets | **11,730,828** | 5,389,943 |
| **CURRENT ASSETS** | | |
| Amounts due from subsidiaries | **4,424,418** | 5,924,148 |
| Prepayments and other receivables | **3,559** | 3,337 |
| Equity investments at fair value through profit or loss | **164,736** | 151,575 |
| Other investments | **20,930** | – |
| Cash and cash equivalents | **848,554** | 142,645 |
| Total current assets | **5,462,197** | 6,221,705 |
| **CURRENT LIABILITIES** | | |
| Interest-bearing bank loans | **1,987,234** | 968,818 |
| Other payables and accruals | **5,497** | 6,753 |
| Amounts due to subsidiaries | **1,171,100** | 1,096,942 |
| Total current liabilities | **3,163,831** | 2,072,513 |
| **NET CURRENT ASSETS** | **2,298,366** | 4,149,192 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **14,029,194** | 9,539,135 |
| Net assets | **14,029,194** | 9,539,135 |
| **EQUITY** | | |
| Issued capital | **527,309** | 423,268 |
| Reserves *(note)* | **13,501,885** | 9,115,867 |
| Total equity | **14,029,194** | 9,539,135 |

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

*Note:*
A summary of the Company's reserves is as follows:

| | Treasury shares RMB'000 | Share premium RMB'000 | Contributed surplus RMB'000 Note (i) | Capital reserve RMB'000 | Share option reserve RMB'000 Note (ii) | Warrant Reserve RMB'000 | Other reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | – | 9,543,093 | 42,849 | (830,425) | 163,036 | – | (49,695) | 268,084 | 9,136,942 |
| Profit for the year and total comprehensive income for the year | – | – | – | – | – | – | – | 483,186 | 483,186 |
| Exercise of share options | – | 5,025 | – | – | (1,555) | – | – | – | 3,470 |
| 2014 dividend paid | – | – | – | – | – | – | – | (234,864) | (234,864) |
| 2015 interim dividend paid | – | – | – | – | – | – | – | (274,769) | (274,769) |
| Equity-settled share option arrangements | – | – | – | – | 1,902 | – | – | – | 1,902 |
| At 31 December 2015 and 1 January 2016 | **–** | **9,548,118** | **42,849** | **(830,425)** | **163,383** | **–** | **(49,695)** | **241,637** | **9,115,867** |
| Profit for the year and total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **174,275** | **174,275** |
| Issue of shares | **–** | **5,018,248** | **–** | **–** | **–** | **–** | **–** | **–** | **5,018,248** |
| Shares repurchased for cancellation | **–** | **(382,867)** | **–** | **–** | **–** | **–** | **–** | **–** | **(382,867)** |
| Shares repurchased for share award scheme | **(257,495)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(257,495)** |
| Equity-settled share option arrangements | **–** | **–** | **–** | **–** | **337** | **–** | **–** | **–** | **337** |
| 2015 dividend paid | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(284,211)** | **(284,211)** |
| Reclassification of warrants | **–** | **–** | **–** | **–** | **–** | **117,731** | **–** | **–** | **117,731** |
| At 31 December 2016 | **(257,495)** | **14,183,499** | **42,849** | **(830,425)** | **163,720** | **117,731** | **(49,695)** | **131,701** | **13,501,885** |

*Notes:*

(i) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the Group level, the contributed surplus is reclassified into various components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) it is, or after the payment would be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

(ii) The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount may either be transferred to the share premium account when the related options are exercised, or be transferred to the retained earnings should the related options expire or be forfeited after the vesting date.

## 46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 27 March 2017.

# Corporate Information

## DIRECTORS

### Executive Director

ZOU Xiao Chun

### Non-executive Directors

ZHANG Da Zhong *(Chairman)*
HUANG Xiu Hong
YU Sing Wong

### Independent Non-executive Directors

LEE Kong Wai, Conway
NG Wai Hung
LIU Hong Yu
WANG Gao

## COMPANY SECRETARY

SZETO King Pui, Albert

## AUTHORISED REPRESENTATIVES

ZOU Xiao Chun
SZETO King Pui, Albert

## PRINCIPAL BANKERS

China Construction Bank
CITIC Bank
Industrial Bank
China Merchants Bank
Bank of Shanghai

## AUDITORS

Ernst & Young
Certified Public Accountants

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## HEAD OFFICE

Suite 2915, 29th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR IN BERMUDA

MUFG Fund Services
(Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Abacus Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

国美电器

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