Huiyin Smart Community Co., Ltd.
汇银智慧社区有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1280

汇银家电连锁
HUIYIN HOUSEHOLD APPLIANCE CHAIN

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2016
Annual Report

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cao Kuanping *(Chairman and Chief Executive Officer)*
Mr. Mo Chihe
Mr. Mao Shanxin
Mr. Wang Zhijin
Mr. Lu Chaolin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhou Shuiwen
Mr. Tam Chun Chung
Mr. Lo Kwong Shun Wilson

COMPANY SECRETARY

Ms. Ngai Kit Fong

AUDIT COMMITTEE

Mr. Tam Chun Chung *(Chairman)*
Mr. Zhou Shuiwen
Mr. Lo Kwong Shun Wilson

REMUNERATION COMMITTEE

Mr. Zhou Shuiwen *(Chairman)*
Mr. Cao Kuanping
Mr. Lo Kwong Shun Wilson

NOMINATION COMMITTEE

Mr. Lo Kwong Shun Wilson *(Chairman)*
Mr. Mo Chihe
Mr. Zhou Shuiwen

AUTHORISED REPRESENTATIVES

Mr. Cao Kuanping
Ms. Ngai Kit Fong

REGISTERED OFFICE

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Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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No. 539 Wenchang Zhong Road
Yangzhou City
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

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Hong Kong

AUDITOR

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Certified Public Accountants
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Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
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Hong Kong

PRINCIPAL BANKERS

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Jiangsu Province
PRC

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Jiangsu Province
PRC

China Merchant Bank (Yangzhou Branch)
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No. 12 Wenchang West Road
Yangzhou City
Jiangsu Province
PRC

China Citic Bank (Yangzhou Branch)
No. 171 Weiyang Road
Yangzhou City
Jiangsu Province
PRC

STOCK CODE

1280

WEBSITE OF THE COMPANY

www.hyjd.com
(information on the website does not form part of this annual report)

Financial And Operational Highlights

HIGHLIGHTS

01 Revenue for 2016 was RMB1,384.0 million, representing a decrease of 32.6% compared with 2015.

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

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

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

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

Chairman's Statement

During the year, with the competitive strength of the "Huiyin" and "Huiyin Lehu • Global Community" brand as a foundation and closely linked up with its "Huiyin Lehu platform", the Group has further improved its brand awareness and influence in the target market.

Cao Kuanping
Chairman

Dear Shareholders,

On behalf of the Board of Directors ("the Board" or "the Directors") of Huiyin Smart Community Co., Ltd. (the "Company") and its subsidiaries ("the Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2016.

2016 was a year of both opportunities and challenges for the Group. China's GDP (Gross Domestic Product) growth slowed to 6.7% according to the National Bureau of Statistics. Meanwhile rural residents' income continues to grow faster than that of urban residents during the year. As the income gap between urban and rural residents gradually narrows down, the consumption potential of rural residents is huge. Meanwhile, with the increase of income of urban and rural residents, consumption of commodities in Mainland China picked up. The volume of total retail sales of consumer goods grew by 10.4% on the year. Notably, the online retail sales reached approximately RMB5,155.6 billion, representing an increase of 26.2% over last year. Online to offline ("O2O") business has become a new source of consumption growth. The Group developed the community life service network from the end of 2014 in Jiangsu Province and began to put much more concentration on the e-commerce and import merchandise business. During the year, the Group's e-commerce and import merchandise developed steadily. Due to the influence of strategy transformation, the Group recorded a net loss of approximately RMB730.2 million for the year, while loss for last year was approximately RMB430.9 million. The gross profit margin recorded a year-on-year decrease of 1.8 percentage point to 4.1%. For the year ended 31 December 2016, the Group recorded revenue of RMB1,384.0 million, representing a decrease of 32.6% as compared to RMB2,053.9 million for 2015. The basic loss per share was RMB45.25 cents for the year of 2016.

INTEGRATED BUSINESS MODEL

During the year, facing various opportunities and challenges, the Group actively captured opportunities to realize transformation and upgrading. With development and expansion of business scope, the Group has transformed to a household appliances, import merchandise business, internet+, and community e-commerce operator, and was striving to be a leader of smart community life service platform and in the import merchandise direct selling industry in China. By implementing the development strategy of combining online platform and offline resources, strengthening the strategic cooperation with well-known brands and carrying out a diversified customer-based marketing and promotion model, the Group maintained its competitive advantages in protecting brand image and continuously optimize and expand the sales networks in target markets, which in turn retained the relatively stable development of each business segment. During the year, with the competitive strength of the "Huiyin" and "Huiyin Lehu • Global Community" brand as a foundation and closely linking up with its "Huiyin Lehu platform", the Group has further improved its brand awareness and influence in the target market.

Through the business model of integrating the e-commerce and import merchandise business segment with traditional business segment, the Group developed a strategic alliance with its suppliers and was recognized by customers.

DEEPEN THE CORPORATE STRATEGY ARRANGEMENT

In 2016, while improving its corporate governance and general operational level, the Group further deepened its corporate strategy arrangement. In order to accomplish the transformation to be a household appliances, import merchandise business, internet+ and community e-commerce operator, and a leader of smart community life service platform and in the import merchandise direct selling industry in China, the Group proactively optimized its products mix and categories and adopted diversified promotion strategies targeting at demands from different markets and new customer bases through reforms on resources consolidation, improvement of employees' skills, management over supply chain and corporate promotions. The Group developed the smart community life service platform as an important part of the Group's smart community strategy. The Group had established "Huiyin Lehu" branded import merchandise experience bases in second-tier cities such as Nanjing City and Suzhou City to expand our network into first and second-tier markets, and the customers recognized the Group's sale model under its e-commerce and import merchandise business as well as the quality and price of the products so sold by the Group. To develop the e-commerce cloud computing market for community integrated services, the Group has entered strategic cooperation with some famous organizations such as Huawei and Ningbo Free Trade Zone by using respective advantages in resources and providing support to each other. Meanwhile, the Group continued to develop the long-term customer membership plan with a view to implementing the long-term customer marketing model, and realized electronic management over customer resources in order to increase the marketing and promotional efforts of the Group.

On brand strategy, "Huiyin" and "Huiyin Lehu • Global Community" achieved good progress during the year, with the brand promotion coverage extended to Jiangsu and Anhui Provinces and part of the surrounding regions. During the year, the Group improved the awareness of our brand by cross-media cooperation with television, radio and internet, and also promote through mobile devices to improve the communication and interaction with members of Huiyin. In addition, the Group differentiated its brand credibility and recognition by proactively fulfilling its social responsibility and actively participating in social welfare undertakings for making contributions to the community. Public welfare events such as community recreational and sports activities, health lectures and campus activities were held to improve the perceptions of consumers toward the brand.

During the year, the Group continuously consolidated and reformed its management information system and informatization platform. Membership management system had been implemented to optimize membership relationship. In addition, the Group strengthened its human resources management, which enabled the Group to allocate its resources more effectively and enhance human resources and operational efficiency, in order to lay down a solid foundation for the Group to further strengthen its overall competitiveness and accomplish the strategy transformation..

FACING CHALLENGES AND LOOKING AHEAD

With the technology development, E-commerce grew rapidly. Chinese government has released policies to vigorously promote O2O business. Rural e-commerce, community e-commerce as well as cross-boarder e-commerce was becoming new growth drivers for the market. In addition, household appliance is still an important part of our business. The growing size of cities with the progress of China's urbanization, the increase in residential income in third and fourth-tier cities and the improvement in housing conditions will support the growth of demand for home appliances. And with more and more concern from the customers, the proportion of innovative health-care household appliances will continue to increase, which will bring new development opportunities for China's household appliance market.

Looking ahead in 2017, the business of e-commerce and import merchandise is promising and the domestic consumer market is confronting changes in growth pattern and structural integration. The Group will continue to take the opportunities arising from market environment and industry consolidation, leverage on its unique business model and its sales network and client resources and adhere to its cautious and optimistic marketing and promotion strategies to consolidate and maintain the awareness of our brand in target market, optimize the business model to enhance management efficiency. The Group will also maintain and deepen its long-term and continuous cooperation relationship with suppliers and business partners, and achieve a mutual benefit and win-win situation. In addition, the Group will also participate in export trade business to enlarge sources of turnover and profit growth.

In the coming year, the Group will focus on reforms in respect of store management, brand building and human resources management. We will expand sales network in the target areas by upgrading and consolidating existing stores to increase sales revenue and further expand the Group's market share. Another import merchandise experience base is going to be established in Shanghai city, upon which, we will enter into the first-tier city. Furthermore, the successful model of import merchandise experience base will be expand to other areas in Yangtze River Delta. Meanwhile we will strengthen awareness of the "Huiyin" and "Huiyin Lehu • Global Community" brands through the development of e-commerce cloud platform, community life service and household appliances business.

On behalf of the Board, I would like to express my wholehearted thanks to all shareholders and investors who show their care and support for the Company. The solid and sound development of the Group depends on the support from our shareholders, employees and business partners. We believe, with the support and joint efforts from our shareholders, management and employees, the Group will achieve sustainable results to create good investment returns for shareholders and investors in the coming year.

Cao Kuanping
Chairman

Hong Kong, 24 March 2017

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

BUSINESS REVIEW

An integrated business model

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

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

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

E-commerce and import merchandise business

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

Import merchandise business

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

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

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

E-commerce

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

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

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

Traditional business of household appliances

Retail business

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

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

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

Bulk distribution business

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

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

Client services: after-sales and logistics management

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

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

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

Diversified marketing and promotion strategies

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

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

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

Management information system integration and upgrade

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

Human resources management

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

During the year, the Group continued to fulfill its corporate social responsibility, and actively participated in community welfare undertakings to the society. Helping the Disabled activities have been going on for several years. In 2016, the Group was honoured with various awards, including “Innovation Model Enterprise in Commerce Circulation Service Industry of Jiangsu Province (江蘇省商貿流通服務業模式創新示範企業)” by the Commercial Association of Jiangsu Province (江蘇省商業聯合會), which highlighted the Group’s brand creditworthiness and awareness.

FINANCIAL REVIEW

Revenue

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

Turnover of the Group comprises revenues by operation as follows:

	2016 **RMB’000**		2015 RMB’000	
Sales from traditional business	**744,045**	**53.8%**	1,420,744	69.2%
– Retail	**327,852**	**23.7%**	547,935	26.7%
– Bulk distribution	**416,193**	**30.1%**	872,809	42.5%
Sales from e-commerce and Import merchandise business	**629,937**	**45.5%**	612,896	29.8%
Rendering of services	**10,047**	**0.7%**	20,210	1.0%
Total revenue	**1,384,029**	**100.0%**	2,053,850	100.0%

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

Cost of sales

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

Gross profit

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

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

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

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

Other income

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

Other losses

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

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

Selling and marketing expenses

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

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

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

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

Administrative expenses

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

The following table sets out a summary for administrative expenses:

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

The Group enters into agreement various suppliers whereby the Group is entitled to inventory purchase rebates primarily upon achievement of specified volume purchasing levels. The Group assesses the entitled supplier rebates as earned, and adjusts them by taking into consideration of the estimated recoverability based on the historical settlement record and the future purchase plan of the Group from these suppliers. The provision for impairment on receivables was mainly due to making of certain provision for advance payment to and rebates receivable from suppliers after taking into account of the financial position of upstream companies in the industry and collectability of the receivables. During the year, the Group gave up some traditional household appliances distribution rights, which led to a worsen collectability and a higher provision for impairment of advance payment to and rebates receivable from suppliers accordingly. During the year, accrual of provision of RMB269,929,000 (2015: RMB198,225,000) for impairment of supplier rebates receivable had been recognised in "administrative expenses". In addition, provision of RMB40,743,000 (2015: Nil) for advance payment to a supplier had also been recognised in "administrative expenses" as that supplier had not fulfilled the Group's orders for merchandise. The Group is still negotiating with the supplier on the provision of the merchandise and/or the repayment of the advance payment made by the Group.

Further details on the accruals of rebates from suppliers and provision for supplier rebates receivable are set out in the paragraph headed "Key Audit Matters – Accruals of rebates from suppliers and provision for supplier rebates receivable" in the independent auditor's report, and note 4(a) headed "Accruals of rebates from suppliers and provision for supplier rebates receivable" to the financial statements of the Group.

Finance costs – net

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

Share of loss of a joint venture

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

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

Share of (loss)/profit of an associate

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

Loss before income tax

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

Loss attributable to equity holders of the Company

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

Investment in and loan to a joint venture

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

Cash and cash equivalents

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

Inventories

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

Prepayments, deposits and other receivables

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

Trade and bills receivables

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

Trade and bills payables

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

Gearing ratio and the basis of calculation

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

Capital expenditure

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

Cash flows

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

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

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

Capital structure

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

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

Liquidity and financial resources

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

Pledging of assets

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

Contingent liabilities

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

Capital commitments

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

Foreign currencies and treasury policy

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

Final dividend

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

USE OF FUNDS RAISED FROM INITIAL PUBLIC OFFERING

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

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

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

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

EMPLOYMENT AND REMUNERATION POLICY

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

HUMAN RESOURCES

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

OUTLOOK

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

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

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Throughout the year ended 31 December 2016, the Company has complied with the code provisions as set out in the CG Code, except for the deviation from code provisions A.2.1 and E.1.2 which are explained in the relevant paragraphs of this corporate governance report.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

THE BOARD

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises eight members, consisting of five executive directors, and three independent non-executive directors:

Executive directors:

Mr. Cao Kuanping, Chairman, Chief Executive Officer and member of the Remuneration Committee

Mr. Mo Chihe, member of the Nomination Committee

Mr. Mao Shanxin

Mr. Wang Zhijin, Chief Financial Officer

Mr. Lu Chaolin, Vice General Manager

Independent non-executive directors:

Mr. Zhou Shuiwen, Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee

Mr. Tam Chun Chung, Chairman of the Audit Committee

Mr. Lo Kwong Shun Wilson, Chairman of the Nomination Committee and member of the Audit Committee and the Remuneration Committee

The biographical information of the directors are set out in the section headed "Directors' and Senior Management's Profile" on pages 48 to 51 of this annual report.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Mr. Cao Kuanping, Chairman, Chief Executive Officer and Executive Director, is the brother-in-law of Mr. Mao Shanxin, Executive Director. Save as disclosed, there are no financial, business, family or other material/relevant relationships among members of the Board.

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the strategic direction of the Company.

Chairman and Chief Executive Officer

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

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

Appointment, Re-election and Removal of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive directors entered into a service agreement with the Company for a term of three years. The term of office of Mr. Lu Chaolin was renewed for further three years commencing on 25 March 2017 whereas the term of office of Mr. Cao Kuanping, Mr. Mo Chihe, Mr. Mao Shanxin and Mr. Wang Zhijin was renewed for further three years commencing on 5 March 2016. The appointment of the executive directors can be terminated by either party by giving not less than six months' prior notice in writing to the other.

Each of the independent non-executive directors entered into an appointment letter with the Company for a term of three years. The term of office of Mr. Lo Kwong Shun Wilson was renewed for further three years commencing on 17 July 2016 whereas the term of office of Mr. Zhou Shuiwen and Mr. Tam Chun Chung was renewed for further three years commencing on 5 March 2016. The appointment of the independent non-executive directors can be terminated by either party by giving not less than three months' prior notice in writing to the other.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

All directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Records of training received by each existing director in 2016 is summarized below:

Directors	Types of Training
Mr. Cao Kuanping	A
Mr. Mo Chihe	A
Mr. Mao Shanxin	A
Mr. Wang Zhijin	B
Mr. Lu Chaolin	A
Mr. Zhou Shuiwen	C
Mr. Tam Chun Chung	B
Mr. Lo Kwong Shun Wilson	C

A Attending in-house briefing(s)
B Attending seminar(s) and training(s)
C Reading materials relating to directors' duties and responsibilities

Board Committees and Corporate Governance Functions

The Board has established three committees, namely, the audit committee, remuneration committee and nomination committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

All/the majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Company established the audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditor, and arrangements to enable employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee comprises three independent non-executive directors, namely Mr. Tam Chun Chung, Mr. Lo Kwong Shun Wilson and Mr. Zhou Shuiwen (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). Mr. Tam Chun Chung has been appointed as the chairman of the Audit Committee.

During the year, the Audit Committee held two meetings, to review annual financial results and report for the year ended 31 December 2015 and interim financial results and report for the half year ended 30 June 2016 and to review significant issues on the financial reporting and compliance procedures, internal control and the independence, scope of work and appointment of external auditor.

The Audit Committee also met the external auditor twice without the presence of the executive directors.

The Audit Committee has in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the auditor's report thereon.

Remuneration Committee

The Company established the remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee comprises one executive director, Mr. Cao Kuanping and two independent non-executive directors, Mr. Lo Kwong Shun Wilson and Mr. Zhou Shuiwen. Mr. Zhou Shuiwen has been appointed as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee held one meeting, to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive directors and senior management.

Nomination Committee

The Company established the nomination committee (the "Nomination Committee") with written terms of reference in compliance with the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of independent non-executive directors.

The Nomination Committee comprises one executive director, Mr. Mo Chihe and two independent non-executive directors, Mr. Lo Kwong Shun Wilson and Mr. Zhou Shuiwen. Mr. Lo Kwong Shun Wilson has been appointed as the chairman of the Nomination Committee.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would review the implementation of the Board diversity policy in achieving the objectives set for the benefits of the Company.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year, the Nomination Committee held one meeting, to review the structure, size and composition of the Board and the independence of the independent non-executive directors and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting. The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Records of Directors and Committee Members

The attendance record of each director at the Board and Board Committee meetings and the General Meetings of the Company held during the year ended 31 December 2016 is set out in the table below:

	Attendance/Number of Meetings					
	Board Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings	Annual General Meeting	Extraordinary General Meeting
Executive directors						
Mr. Cao Kuanping	17/17	N/A	1/1	N/A	0/1	0/0
Mr. Mo Chihe	17/17	1/1	N/A	N/A	0/1	0/0
Mr. Mao Shanxin	17/17	N/A	N/A	N/A	0/1	0/0
Mr. Wang Zhijin	17/17	N/A	N/A	N/A	1/1	0/0
Mr. Lu Chaolin	17/17	N/A	N/A	N/A	0/1	0/0
Independent non-executive directors						
Mr. Zhou Shuiwen	17/17	1/1	1/1	2/2	*1/1	0/0
Mr. Tam Chun Chung	17/17	N/A	N/A	2/2	1/1	0/0
Mr. Lo Kwong Shun Wilson	17/17	1/1	1/1	2/2	1/1	0/0

* Attendance by delegates

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive directors without the presence of the other executive directors to discuss the business of the Company during the year.

Mr. Cao Kuanping, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 30 May 2016 due to his other business commitments. This constitutes a deviation from code provision E.1.2 of the CG Code. He will use his best endeavours to attend the future annual general meetings of the Company.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company and of the Group for the year ended 31 December 2016.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's and the Group's financial statements, which are put to the Board for approval.

Risk Management and Internal Controls

The Board has overall responsibility for the risk management and internal control systems of the Group and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate risk management and internal control systems to safeguard the interests of the shareholders and the assets of the Group.

During the year, the Board as supported by the Audit Committee conducted a review of the risk management and internal control systems of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget and considered that such systems are effective and adequate.

The risk management and internal control systems of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

An internal audit function is set up to examine key issues in relation to the financial and operational matters and practices and to provide the findings and any recommendations for improvement to the Audit Committee.

With a view to identifying, handling and disseminating inside information, procedures have been implemented by the Group to ensure that unauthorized access and use of information are strictly prohibited.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 52 to 58.

For 2016, the remuneration of the Company's external auditor for the review of half-yearly interim financial information of the Group for the six months ended 30 June 2016 and audit of the annual consolidated financial statements of the Group for the year ended 31 December 2016 was RMB3.57 million in aggregate. No non-audit services were provided by the external auditor in 2016.

COMPANY SECRETARY

Ms. Ngai Kit Fong of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary. Its primary contact person at the Company is Mr. Wang Zhijin, executive director and Chief Financial Officer of the Company. Ms. Ngai also confirmed that she has taken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at www.hyjd.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company or via email to gaojing@zhixincaijing.com for any enquiries.

The Board welcomes the view of shareholders and encourages them to attend general meetings to raise any concern they might have with the Board or the management directly. Board members (or their delegates as appropriate) and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

Extraordinary general meetings may be convened by the Board on the written requisition of any two or more shareholders (or one shareholder which is a recognised clearing house) holding not less than one-tenth of the paid up capital of the Company or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Article 12.3 of the Company's Articles of Association. The objects of the meeting must be stated in the requisition which must be signed by the Requisitionist(s) and deposited at the principal office of the Company in Hong Kong. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	Huiyin Building, No. 539 Wenchang Zhong Road, Yangzhou City, Jiangsu Province, PRC For the attention of Mr. Wang Zhijin
Fax:	86-514-87370101
Email:	gaojing@zhixincaijing.com

Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) together with their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Any shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board of the Company in writing for the Board's consideration not less than 7 days prior to the date of a general meeting. Contact details of the Board are the same as set forth above in this section.

During the year, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Articles of Association for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the Company's Articles of Association and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hyjd.com) immediately after the relevant general meetings.

GOING CONCERN

There are no material uncertainties relating to events or conditions that would cast significant doubt upon the Company's and the Group's ability to continue as a going concern.

An analysis of the financial risk on liquidity of the Group is included in note 3.1(d) to the consolidated financial statements.

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). To achieve long-term growth of the organization and creating positive impact for our customers, employees, the community and other stakeholders, the Group actively takes on environmental and social responsibilities, and views such responsibilities as the cornerstone for its operations, management and development. During the year, the Group promoted sustainable development through the duly performance of its corporate governance, environmental and social responsibilities and had made significant progress.

ENVIRONMENTAL

Committed to building an "eco-friendly" business, we centre our operations on a green and healthy society to reduce the environmental impact of our daily operations by integrating environmental friendly measures.

In addition to strictly abiding by the environmental laws and regulations in force in China, the Group also complies with local regulations for the prevention and control of air pollution, as well as local wastewater discharge requirements for the places where it operates. We conduct environmental risk assessments on our daily operation to identify potential environmental impacts, and implemented measures to minimize negative impact on the environment and the society.

EMISSIONS

The Group has enhanced its management of emissions to reduce the emission of greenhouse gases, sewage as well as the generation of waste. We reduced unnecessary business trip by staffs and used other alternatives such as hosting telephone conferences instead after taking into account the environment impact. We also post water-saving notices in offices to reduce the amount of domestic sewage discharged.

In addition to being committed to taking on its responsibilities for waste disposal, the Group is also keen on optimizing its resource utilization. Non-hazardous waste is recycled and reused by designated municipal departments. Internally, the Group encourages the establishment of a waste-classification system and the disposal of general waste on a regular basis.

USE OF RESOURCES

The group values and encourages the economic and efficient use of resources, while enhancing its recycling efforts to prevent the waste of resources. We consider resources as one of the key elements to achieve sustainable development. Improving resource consumption efficiency not only can enhance the environmental performance of the Group's operations, but also reducing operating costs and improve operational efficiency in the long term.

The Group advocates for environmental protection among its employees on a regular basis so as to raise their awareness about environmental protection and energy conservation. By encouraging its staff to economize on electricity, water and paper in daily operations, the Group incorporates low-carbon workplace into its organizational culture. We are also committed to improving the measures for energy saving and water conservation, ranging from indoor devices to operation, management and habits, to put lower carbon lifestyle into real practice.

During the year, the Group implemented the following measures to save resources in its daily operation:

- Energy saving lighting was used to replace traditional fluorescent tubes and bulbs in places of offices and business, which can further reduce energy consumption.
- Double-sided print and recycle used paper.
- Control usage of air conditioners and monitor their temperature settings to save energy.
- Cultivate every staff the habit of turning off electronic appliances such as lights, air conditioners, printers and water dispensers when not in use. Officers are arranged to check the places of offices and business.

Our impact on the environment mainly comes from the energy and paper consumed by the Group, as well as the waste generated. We have incorporates a number of environmental measures into our operation, including recycling of waste, reduction the consumption of energy and paper, which reduce environmental impact while improving efficiency. During the year, the Group was not aware of any material non-compliance with relevant standards, rule and regulations, and it did not record any major incident related to environmental pollution.

SOCIAL

The Group aims to build a harmonious and prosperous community environment. Focusing on areas such as employment and labour regulations, operational practices and social participation, we set out to build a mutually beneficial relationship with relevant individuals and organizations, including staffs, clients, suppliers, investors, communities as well as the public and government.

EMPLOYMENT AND LABOUR REGULATIONS

Attracting, developing and retaining the best talent is of utmost importance to our continuous business growth. The Group is committed to create a pleasant work environment for its staff and ensure their health and safety.

Employment

The Group has formulated a number of rules and regulations, such as Code of Conduct, to provide provisions on remuneration, dismissal, recruitment and promotion, working hours, holidays, equity opportunities, diversity as well as other benefits and welfare for employees.

The Group adopts remuneration policies similar to its peers in the industry. The remuneration payable to our staff is fixed by reference to the prevailing market rates in the region. Our management receives a fixed sum of basic salary and a discretionary performance bonus after annual/monthly/quarterly assessments. The remuneration of our other employees comprises basic salary and an attractive sum of monthly performance bonuses. Discretionary bonus scheme is also in place to reward the employees with outstanding performance, including long-term incentive such as share option programme. In compliance with the applicable statutory requirements in the PRC and existing requirements of the local government, our Group participates in different social welfare plans for our employees.

In addition to providing staff with reasonable and competitive compensation packages, the Group also aims to create a fair and non-discriminatory atmosphere where male and female staffs are equally entitled to employment and promotion opportunities. As at 31 December 2016, the number of the Group's employees was 1,138, including 538 males and 600 females.

We focus on maintaining a well-established relationship and communication with staffs to better understand their concerns and identify areas of improvement. Recreational activities such as outings are held regularly to promote work-life balance in the workplace.

The Group strictly abides by all of its internal rules and regulations, as well as labour laws and relevant guidelines in places where it operates and locates. During the year, the Group was not aware of any material non-compliance with relevant standards, rules and regulations.

Health and Safety

The Group endeavours to provide and maintain a safe and healthy working environment for employees to protect them from work-related accidents or juries. We also set up a clear management and implementation framework to achieve the target of zero accident. Clear guidelines on occupational health and safety are set out in the Group's internal rules and Code of Conduct, which are also communicated to new employees through proper training.

The Group provides centralized guidelines and supervision on its workplace health and safety in accordance with the laws of regulations of China related to occupational health and safety as well as industry standards. The Group defines rules about occupational health and safety by formulating various manuals for daily operations. During the year, the Group was not aware of any material non-compliance with relevant standards, rules and regulations.

Development and Training

Training and career development opportunities are essential to building a strong team. We always attach great importance to our employee's individual career development. The Group have established and implemented staff training and management system as well as relevant training mechanism and procedures to enhance the overall achievement and the professional and technical performance of its entire staff. Having incorporated orientation training, vocational training and performance training and performance training, we aim to promote shared advancement between employees and the Group, with a view to helping our staff to adapt to the changes in social settings and demands arising from corporate development.

The Group offered professional training across multiple internal and external channels. "Huiyin Business School" was launched to train more retail and e-commerce talents. The training programme covers orientation for new employees, cultural inheritance and enhancement of customer service experience to better equip staff at work.

The Group regularly organizes orientation training for new employees. Through various forms of training, such as educational programmes and outdoor activities, new employees come to a quick understanding of the Group and its organizational culture so they can ease into the Group.

The Group also provides diversified on-the-job training based on the needs of respective positions and the talents and interests of employees to enhance their individual professional competence and productivity. In 2016, the Group organized over 100 training sessions of different topics covering staff induction training, product knowledge, sales skills, leadership skills and corporate culture to meet the needs of employees at different levels, with total attendances reaching about 3,700.

Labour Standards

The Group has formulated a comprehensive set of human resource policies stipulating rules on compensation, recruitment, dismissal, promotion, holidays, training and welfare to support the entire works related to human resources.

The Group strictly abides by Labour Law of the PRC and employments laws applicable to relevant jurisdiction in places where it operates and locates to safeguard the benefits of its employees. The Group also complies stringently with relevant local laws on equal employment opportunities, as well as the prevention of child labour and force labour. Meanwhile, the Group regularly monitors information and data related to employment to prevent non-compliance with rules on child labour and force labour. During the year, the Group was not aware of any material non-compliance with relevant laws and regulations.

OPERATIONAL PRACTICES

To be a leader of smart community e-commerce platform and imported goods direct selling industry in China, the Group applies various best practice principles to the management system and operation to extensively regulate the operations of the Group and create sound regulatory environment with optimized structure, system and procedure.

The Group always strives to follow operational practice based on local and international laws and thoroughly understand its clients. All staff members are required to abide by internal and external codes of integrity and conduct; any form of bribery, fraud, competitive conduct and corruption is strictly prohibited. Corporate reputation and product liability are of great importance to the Group, thus the Group insists on purchasing from its shortlisted suppliers. We set up system supervision and internal control mechanisms to carry out internal audit for daily operation.

Supply Chain Management

The Group has established and operated a material procurement management system and a supplier management system, which set out detailed and clear procedures and regulations in respect of procurement and tendering, assessment and selection standards of suppliers. Based on the material requirement plans developed by the respective departments and the categories of materials required, the Group usually purchases materials through price rationing and sentinel procurement; the Group will shortlist and handpick suppliers through a screening and evaluation process based on quality and price. To ensure fair competition, quotation from different suppliers are compared in accordance with the Group's procurement guidelines, and construction projects are open for tender in accordance with the Group's tender policy. We have also enhanced the education of business ethics for relevant departments internally.

Furthermore, the Group also carries out field investigations on its suppliers when necessary, with a view to ensuring that its suppliers are well equipped to provide guaranteed quality and are able to manage safety and other environmental issues. Such investigations cover productivity, technical standards, quality assurance, supply capability, as well as safety and environmental management credentials, all of which are essential in ensuring the safety of its supply chains.

Product Liability

We have always endeavoured to provide the best products to customers. We are open and transparent towards issues on product quality and safety, and strictly comply with industry standards and laws in all regions. The Group sets out to deliver on its commitment to quality products and services, and undertakes not to profiteer through fraudulent or deceitful actions targeting consumers.

In accordance with relevant PRC rules and regulations, only qualified products which pass relevant tests can be sold to customers. Daily operations are carried out under relevant rules about quality standard and inspection reporting as issued by Chinese government, and are open to supervision from clients and the public. During the year, the Group was not aware of any material non-compliance with relevant standards, rules and regulations.

The Group attaches utmost importance to its product quality and reputation, and provides comprehensive after-sales services. We have established internal policies and procedures for product returns and exchanges with clear guidelines. Sales receipts are issued in strict compliance with the Consumer Protection Law of the People's Republic of China and relevant applicable laws. We specify product information as well as return and maintenance policies on sales certificates. Multiple channels have been developed for customers to make enquiries and provide feedback. When we receive complaints or product return requests from customers, the appointing designated staff should file a complaint record in the customer relationship management system which will then be followed and handled by staff of the customer services department. The problems will be investigated and reported to the relevant departments for closer attention. Corrective measures will be implemented to preventing the reoccurrence of similar complaints.

We provide customers with a variety of high quality products, as well as professional, premium and friendly services, and enjoyable shopping experience. Structured and comprehensive training is provided to all frontline staff to ensure they deliver attentive customer service accompanied by adequate skills and knowledge.

The Group exercises caution in its daily operations to safeguard client information, protecting client information from unauthorized access, usage and leakage through various safety technologies and procedures. We have reviewed our policies and procedures relating to our customers' personal data collected through the Group's website, our membership programme and social media platform to ensure that all departments have properly complied with the policies of the Group regarding collection, use, accessibility, storage and removal of personal information. Usage of personal data is only permitted as legally prescribed under the Personal Data (Privacy) Ordinance, and only for related purposes. We make sure that the personal and business data of our clients are properly applied, for authorized business purposes only, and accessible only by staff members to whom such information is deemed necessary. Furthermore, the Group adopts client management measures while appointing designated staff to be in charge of client data maintenance.

Anti-corruption

To ensure honest, loyal behaviours and ethical conduct among staff members, the Group has adopted its own Code of Ethics, so as to enable employees' conduct and behaviour to be monitored throughout daily operations. The Group performs annual self-evaluation to look at the implementation of its Code of Ethics and relevant regulations, the objective of which is to ensure their thorough and consistent execution in actual operations and management practices, with a view to balancing and safeguarding interests of the Group and its stakeholders, and establishing long-term partnerships. The Group also employs independent auditors to carry out external audits on the Group, aiming to prevent and control corruptive or unethical behaviours within the Group through internal supervision and external audits. In addition, the Group provides channels and guidelines for the reporting of any malpractice, misconduct or illegal action within the Group. Upon discovery of any misconduct, any employee may inform his/her supervisor, or otherwise report the misconduct directly to the Chairman of our Audit Committee. All whistleblowing reportings are dealt in a prudent and confidential manner. The Chairman of the Audit Committee is responsible for following up on such complaints and deciding on further investigations.

The Group and its staff strictly abide by all relevant laws, regulations and the Code of Ethics. During the year, the Group was not aware of any material non-compliance with relevant standards, rules and regulations. Furthermore, there were no complaints of corruption against the Group or any of its staff during the year.

COMMUNITY

The Group is committed to contributing to the communities in which we operate by understanding the needs and concerns of our stakeholders. We believe that consolidating our resources will help build stronger synergies and partnerships within the community in the long term. It also takes concrete actions to ensure that community interests are considered when carrying out operational activities of the Group.

The Group stays proactive in fulfilling its responsibilities as a corporate citizen and making contribution to the society; it also encourages staff members to participate in a variety of charitable works aimed at benefiting the society and offering further assistance to those in need. During the year, the Group provides community life services such as free housekeeping, household appliance free repair and maintenance services, as well as change the Old for New Programme to bring more convenience to community residents. Not only was the Group able to demonstrate its dedication to the residents, it also seized the opportunity to promote its operations.

The Group takes the building of a corporate-community relationship that promotes harmony and prosperity seriously, and tries to understand the needs of the community in which it operates by actively participating in community activities. During the year, the Group regularly organized public welfare events such as community recreational and sports activities, as well as health lectures to promote healthy and environmental awareness.

The Group actively maintains communication with non-governmental organizations and charitable organizations to understand community needs and support such organizations to help people in need. We wish to raise the awareness of our employees, customers and peers and encourage them to participate in charitable activities and make contribution to the community. We have consistently co-operated with various charitable institutions and organizations to sponsor the mentally and physically challenged, and low income families. During the year, partnering with Federation of Disabled Persons and Foundation for Disabled Persons, the Group denoted kinds of household appliances to the disabled to help them overcome difficulties in life. We also organized a campaign asking for clothes donations to benefit children in poor mountain areas in Yunnan Province. Supporting people in need can create positive impact in community and foster a culture of understanding in society.

With an aim to promote development of the younger generation, we cooperate with Nanjing Jiangning University Town Management Committee (南京江寧大學城管委會), to establish the Huiyin Lehu Start-up and Innovation Fund (匯銀樂虎創新創業基金) with an amount of RMB1,000,000. This fund will be used to encourage university students to engage in start-up and innovation activities, project incubation and achievement transformation, so as to help youngsters pull themselves up by their bootstraps and contribute to the community.

The Directors have pleasure in presenting this report of the Directors and the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2016.

GROUP REORGANISATION

The Company is a limited liability company incorporated in the Cayman Islands on 5 February 2008. Pursuant to a group reorganization in preparation for listing on the Stock Exchange, the Company had become the holding company of the subsidiaries comprising the Group since 3 April 2008. Further details of the Group's reorganization are set forth in the Company's listing prospectus dated 12 March 2010 (the "Prospectus"). Shares in the Company has been listed on the Main Board of the Stock Exchange since 25 March 2010.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are set out in the "Chairman's Statement" and "Management Discussion and Analysis" sections of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the "Management Discussion and Analysis" section of this annual report. The financial risk management objectives and its valuation processes of the Group are set out in note 3 to the consolidated financial statements.

ENVIRONMENTAL POLICY

The Group has endeavored to protect the environment by minimizing environmental adverse impacts in daily operations, such as investing in energy-efficient lighting and equipment, enhancing paper recycling to reduce consumption and waste, and raising the environmental awareness of our people. The Group will continue to seek for better environmental practices and promote the right environmental attitudes within the organization.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company is incorporated in the Cayman Islands with its shares listed on the Main Board of Stock Exchange. The Group mainly carries out its retail and bulk distribution sales of household appliances, as well as e-commerce and import merchandise business in the PRC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material respects with the relevant laws and regulations in the Cayman Islands, Hong Kong and the PRC during the year.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Details of the key relationships between the Company and its employees, customers and suppliers are set out in the paragraphs headed "Employment and Remuneration Policy", "Human resources management" and "Major Customers and Suppliers" in this annual report.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 64.

The Company has not declared any interim dividend during the year. The Directors do not recommend any payment of final dividend in respect of the year.

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

USE OF PROCEEDS FROM THE COMPANY'S LISTING

Details of the use of proceeds from the Company's Listing are set out on page 19 of this annual report.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 63 and in note 19 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law (2009 Revision) of the Cayman Islands ("Companies Law"), amounted to approximately RMB352.22 million. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set forth in note 7 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2016 are set out in note 25 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report have been:

Executive Directors

Mr. Cao Kuanping *(Chairman and Chief Executive Officer)*
Mr. Mo Chihe
Mr. Mao Shanxin
Mr. Wang Zhijin
Mr. Lu Chaolin

Independent Non-executive Directors

Mr. Zhou Shuiwen
Mr. Tam Chun Chung
Mr. Lo Kwong Shun Wilson

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting after appointment.

In accordance with article 16.18 of the Articles of Association of the Company, Mr. Wang Zhijin, Mr.Tam Chun Chung and Mr. Lo Kwong Shun Wilson shall retire at the forthcoming annual general meeting. All of the above retiring directors (namely Mr. Wang Zhijin, Mr.Tam Chun Chung and Mr. Lo Kwong Shun Wilson), being eligible, will offer themselves for re-election at the annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the annual general meeting has entered or has proposed to enter into any service contracts with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors of the Company are set out in the "Directors' and Senior Management's Profile" section on pages 48 to 51.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2016 and up to the date of this report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As set out in note 39 to the audited consolidated financial statements in this annual report, during the year ended 31 December 2016, the Group had rental expenses paid to Mr. Cao Kuanping, the Chairman and an executive Director of the Company, amounting to RMB3,738,000.

As the applicable percentage ratios on an annual basis calculated with reference to the aggregate annual rents payable by the Group to Mr. Cao are more than 0.1% but less than 5% and the aggregate annual rents payable are more than HK$3,000,000, under Rule 14A.76 of the Listing Rules, the related tenancy agreements are subject to the announcement and annual reporting requirements set out in Rules 14A.68 and 14A.71 of the Listing Rules and the annual review requirements set out in Rules 14A.55 to 14A.59 but is exempted from the shareholders' approval requirement under Chapter 14A of the Listing Rules.

All the independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Our external auditor, PricewaterhouseCoopers, have been engaged to report on the continuing connected transactions and they have provided a letter to the Board of Directors confirming that:

(i) nothing has come to their attention that caused them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

(ii) nothing has come to their attention that caused them to believe that the continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iii) nothing has come to their attention that caused them to believe that the disclosed continuing connected transactions have exceeded the annual cap set by the Company.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests or short positions of the Directors and chief executives of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which had to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Name of corporation	Capacity and Nature of interest	Aggregate number of ordinary shares or underlying shares	Approximate percentage of interest in the corporation
Cao Kuanping	The Company	Interest of controlled corporation	339,103,625 Shares (L)	19.73%
		Beneficial owner	1,000,000 underlying Shares (L)	0.06%
		Spouse interest	1,000,000 underlying Shares (L)	0.06%
Lu Chaolin	The Company	Beneficial owner	5,000,000 underlying Shares (L)	0.29%
Mo Chihe	The Company	Beneficial owner	10,000,000 underlying Shares (L)	0.58%
Mao Shanxin	The Company	Beneficial owner	1,000,000 underlying Shares (L)	0.06%
Wang Zhijin	The Company	Beneficial owner	8,000,000 underlying Shares (L)	0.47%
Tam Chun Chung	The Company	Beneficial owner	500,000 underlying Shares (L)	0.03%
Zhou Shuiwen	The Company	Beneficial owner	500,000 underlying Shares (L)	0.03%
Lo Kwong Shun	The Company	Beneficial owner	500,000 underlying Shares (L)	0.03%

(L) denotes long position.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 31 December 2016, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Name of corporation	Capacity and Nature of interest	Aggregate number of ordinary shares	Approximate percentage of interest in the corporation
China Ruike Investment & Development Co., Ltd.	The Company	Beneficial owner	339,103,625	19.73%
Tianjin Bohai Commodity Exchange Corporation	The Company	Beneficial owner	262,000,000	15.24%
Fuxin Investment Holding Co., Ltd.	The Company	Beneficial owner	131,197,727	7.63%
Mao Shanzhen	The Company	Beneficial owner	1,000,000 Underlying Shares (L) (Note 1)	0.06%
		Spouse Interest	340,103,625 (Note 1)	19.79%

(L) denote long position

Note:

(1) These underlying shares represent the 1,000,000 share options held by Ms. Mao Shanzhen granted by the Company under the Share Option Scheme. The 340,103,625 shares represent the interests held by Mr. Cao Kuanping, spouse of Ms. Mao Shanzhen, whose interests are disclosed in the above section headed "Directors' Interests in Shares, Underlying Shares and Debentures".

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the share capital of the Company during the year are set out in note 18 to the consolidated financial statements.

Share Option Scheme

On 5 March 2010, the Company adopted a share option scheme (the "Share Option Scheme"). The following is a summary of the principal terms of the Share Option Scheme:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants (as defined in paragraph (b) below) and for such other purposes as the Board may approve from time to time.

(b) Participants of the Share Option Scheme

The Board may, at its discretion, invite any executive, non-executive or independent non-executive directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiaries or associated companies to take up options. In determining the basis of eligibility of each participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(c) Total number of Shares available for issue under the Share Option Scheme

The refreshment of the Share Option Scheme mandate limit has been approved by the Shareholders at the Extraordinary General Meeting ("EGM") of the Company held on 10 December 2015.

The maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme of the Company must not exceed 10% of the total number of Shares in issue as at the EGM date.

As at the date of this annual report, there are 8,006,001 options available for grant under the Share Option Scheme, representing 0.47% of the issued share capital of the Company.

(d) **The maximum entitlement of each Eligible Participant under the Share Option Scheme**

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

(e) **Timing for exercising option**

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by the Board at its absolute discretion and notified by the Board to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme.

(f) **Payment of acceptance of option**

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

(g) **The basis of determining the exercise price of option**

The subscription price for the Shares under the Share Option Scheme will be at least the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made by the Company to the grantee (which date must be a business day, "Offer Date");

(ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Offer Date; and

(iii) the nominal value of a Share.

(h) **Duration of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date on 5 March 2010.

During the year ended 31 December 2016, no share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme.

The following directors, an associate of the Directors and employees were granted the share options to subscribe for up to 237,680,000 Shares pursuant to the Share Option Scheme. Among the 237,680,000 share options, 27,500,000 share options were granted to directors of the Company and an associate of a Director.

Name	As at 1 January 2016	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2016	Approximate percentage of interest in the Company
	Number of share Options					
Directors and their associate						
Cao Kuanping						
Chairman, Chief Executive Officer and Executive Director	1,000,000	–	–	–	1,000,000	0.06%
Mo Chihe						
Executive Director	10,000,000	–	–	–	10,000,000	0.58%
Mao Shanxin						
Executive Director	1,000,000	–	–	–	1,000,000	0.06%
Wang Zhijin						
Executive Director and Chief Financial Officer	8,000,000	–	–	–	8,000,000	0.47%
Lu Chaolin						
Executive Director and Vice General Manager	5,000,000	–	–	–	5,000,000	0.29%
Zhou Shuiwen						
Independent Non-Executive Director	500,000	–	–	–	500,000	0.03%
Tam Chun Chung						
Independent Non-Executive Director	500,000	–	–	–	500,000	0.03%
Lo Kwong Shun Wilson						
Independent Non-Executive Director	500,000	–	–	–	500,000	0.03%
Mao Shanzhen						
(the spouse of Cao Kuanping and the sister of Mao Shanxin)	1,000,000	–	–	–	1,000,000	0.06%
Others						
Employees	210,180,000	–	–	–	210,180,000	12.23%
	237,680,000	–	–	–	237,680,000	

The 100,000,000 Share Options granted on 14 May 2015 may only become exercisable in accordance with the following vesting schedule:

(i) half of Share Options (rounded down to the nearest whole number) shall be exercisable at any time during the period commencing on 14 August 2015 and ending on 13 May 2020;

(ii) the remaining half of Share Options (rounded down to the nearest whole number) shall be exercisable at any time during the period commencing on 14 May 2016 and ending on 13 May 2020.

The subscription price payable upon the exercise of the 100,000,000 Share Options granted on 14 May 2015 is fixed at HK$1.69. Details of the valuation of the Share Options are set out in note 18(c) to the audited consolidated financial statements of this annual report.

The 145,680,000 Share Options granted on 22 December 2015 shall be exercisable at any time during the period commencing on 22 June 2016 and ending on 21 December 2025.

The subscription price payable upon the exercise of the 145,680,000 Share Options is fixed at HK$0.95. Details of the valuation of the Share Options are set out in note 18(c) to the audited consolidated financial statements of this annual report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the paragraph headed "Share Capital and Share Option Scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Other than those lease transactions set out in the paragraph headed "Continuing Connected Transactions", at the end of the year or at any time during the year, there was no transaction, agreement or contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director or his connected entity had, whether directly or indirectly, a material interest.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of any business of the Group was entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company, every director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. The Company has arranged appropriate insurance cover in respect of legal action against its directors of the Company.

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

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

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank loans and other borrowings as at 31 December 2016 are set out in note 22 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 15.6% of the Group's total revenue and sales to the largest customer accounted for approximately 11.6% of the Group's total revenue for year 2016. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 50.4% of the Group's total purchases and purchases from the largest supplier accounted for approximately 25.2% of the Group's total purchases for year 2016.

None of the Directors, their associates, or any shareholder which to the knowledge of the Directors own more than 5% of the Company's issued share capital has any interest in the Group's five largest suppliers or the Group's five largest customers.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in note 30 to the consolidated financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee of the Group was established in 2010. Currently, it comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Zhou Shuiwen and Mr. Lo Kwong Shun Wilson. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the auditor's report thereon.

AUDITOR

The financial statements were audited by PricewaterhouseCoopers who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 24 March 2017

EXECUTIVE DIRECTORS

Mr. Cao Kuanping (曹寬平先生), aged 54, founder of our Group, Chairman, executive Director and Chief Executive Officer of our Company, is responsible for our overall sales, marketing, development and strategic planning. Mr. Cao has been a Director since 5 February 2008. He is also a member of the Remuneration Committee. He is the legal representative of our various Group companies. Mr. Cao has extensive experience in the home appliances and consumer electronic products industry of more than 20 years. Prior to the establishment of 揚州滙銀科技集團有限公司 (Yangzhou Huiyin Technology Group Co., Ltd.*) (formerly known as 揚州滙銀家電(集團)有限公司 (Yangzhou Huiyin Household Appliance (Group) Co., Ltd.*)) in 2002, Mr. Cao was the General Manager of both 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) and 揚州市廣陵區滙銀貿易有限公司 (Yangzhou Guangling District Huiyin Trading Co., Ltd.*), both of which were involved in the business of home appliances. Mr. Cao has been a director of China Ruika Investment & Development Co., Ltd. since April 2008, an investment holding company wholly owned by him. In 2009, Mr. Cao obtained his executive MBA under the Tsinghua Executive MBA Program which is a part-time programme launched by Tsinghua University. Mr. Cao also completed the EMBA programme and obtained the degree of executive master of business administration from Cheung Kong Graduate School of Business in September 2013.

Mr. Mo Chihe (莫持河先生), aged 45, executive Director of our Company since 3 April 2008, is responsible for treasury management, cash management, and investment project. He is also a member of the Nomination Committee. He also works together with our chief financial officer on certain accounting aspects of our Group. Mr. Mo has been with us since the establishment of 揚州滙銀科技集團有限公司 (Yangzhou Huiyin Technology Group Co., Ltd.*) (formerly known as 揚州滙銀家電(集團)有限公司 (Yangzhou Huiyin Household Appliance (Group) Co., Ltd.*)) in May 2002. Mr. Mo is also a director of China Yinrui (HK) Investment Holding Company Limited and 揚州滙銀科技集團有限公司 (Yangzhou Huiyin Technology Group Co., Ltd.*). He has more than 15 years of experience in home appliances and consumer electronic products industry and in financial management. Mr. Mo was employed by 揚州造紙廠 (Yangzhou Paper Production Factory*) between 1995 and 1998 during which he obtained the qualification of corporate accountant ((企業)會計師) approved by Ministry of Personnel of the PRC (中華人民共和國人事部) and conferred by Ministry of Finance of the PRC (中華人民共和國財政部) in May 1997. He joined 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) as the financial manager in April 1999. Mr. Mo obtained a high diploma in planning and statistics of economic trading (經濟貿易系計劃與統計專業專科) from 江蘇農學院 (Jiangsu Agricultural College*) (currently known as 揚州大學農學院 (Agricultural College of Yangzhou University*)) in 1992.

Mr. Mao Shanxin (茅善新先生), aged 50, executive Director of our Company since 3 April 2008, is responsible for overall supervision and management of our franchising operation. Mr. Mao joined our Group since inception. Mr. Mao was responsible for overseeing the operation of our warehouse and distribution department and after-sales services department, and was a manager of our bulk distribution business, audit manager, and the manager of our head office. Mr. Mao is also a director of China Yinrui (HK) Investment Holding Company Limited and 揚州滙銀科技集團有限公司 (Yangzhou Huiyin Technology Group Co., Ltd.*) (formerly known as 揚州滙銀家電(集團)有限公司 (Yangzhou Huiyin Household Appliance (Group) Co., Ltd.*)). Prior to joining us, Mr. Mao was employed by 廣陵區百貨公司 (Guangling District Department Store*) as a salesman between 1987 and 1995. Mr. Mao completed 現代企業CEO 項目管理高級研修班 (Advanced Training Course of Project Management for CEO of Contemporary Enterprises*), a part-time course launched by 清華大學 (Tsinghua University*) in 2003. He completed the studying of 工商管理 (MBA) 核心課程班 (the Core Course of Business Administration (MBA) *) which is a part-time course launched by 南京大學 (Nanjing University*) in 2009. Mr. Mao Shanxin is the brother-in-law of Mr. Cao Kuanping, our Chairman.

Mr. Wang Zhijin (王志瑾先生), aged 40, executive Director of our Company since 5 March 2010, is responsible for the overall financial management and investors' relationship management. Mr. Wang joined our Group as the chief financial officer of our Company in July 2008. Mr. Wang was appointed as a director of 揚州滙銀科技集團有限公司 (Yangzhou Huiyin Technology Group Co., Ltd.*) (formerly known as 揚州滙銀家電(集團)有限公司 (Yangzhou Huiyin Household Appliance (Group) Co., Ltd.*)) and China Yinrui (HK) Investment Holding Company Limited, both are wholly owned subsidiaries of the Company, on 6 April 2010 and 6 May 2010 respectively. He was appointed as a director of 上海靜健動康貿易有限公司 (Shanghai Jingjian Dongkang Trading Co., Ltd.*), 上海廣邗貿易有限公司 (Shanghai Guanghan Trading Co., Ltd.*) and 上海滙彩互聯網金融信息服務有限公司 (Shanghai Huicai Internet Financial Information Service Co., Ltd.*), the subsidiaries of the Group, on 24 October 2012, 12 February 2014 and 22 October 2014 respectively. He was also appointed on 9 October 2014 as an independent director of 上海飛凱光電材料股份有限公司 Shanghai Phichem Material Co., Ltd. (stock code: 300398) a company listed on the Shenzhen Stock Exchange. Mr. Wang is a member of 中國註冊會計師協會 (The Chinese Institute of Certified Public Accountants*). He has over 17 years experience in finance and accounting. Mr. Wang was employed by PricewaterhouseCoopers as a junior auditor in 1998, and was subsequently promoted to audit manager. Prior to joining us in 2008, Mr. Wang was appointed in December 2006 as chief financial officer and assistant to the chairman of directors of Kingdom Holdings Limited (stock code: 528), which is a company listed on the Main Board of the Stock Exchange. Mr. Wang obtained his bachelor degree in accounting from 上海財經大學 (Shanghai University of Finance and Economics*) in June 1998.

Mr. Lu Chaolin (路朝林先生), aged 41, has been appointed as an executive Director of our Company with effect from 25 March 2011. Mr. Lu, currently a vice general manager of our Company, is in charge of the overall management of the Group's corporate clients. He joined the Company's predecessor, 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) as deputy general manager in 1999 and 揚州滙銀科技集團有限公司 (Yangzhou Huiyin Technology Group Co., Ltd.*) (formerly known as 揚州滙銀家電(集團)有限公司 (Yangzhou Huiyin Household Appliance (Group) Co., Ltd.*)) as deputy general manager since its establishment in May 2002. Mr. Lu has been the director of 無錫滙銀家電銷售有限公司 (Wuxi Huiyin Household Appliances Sales Co., Ltd.*), a subsidiary, since 24 October 2012. Mr. Lu was appointed as a director of 揚州滙銀科技集團有限公司 (Yangzhou Huiyin Technology Group Co., Ltd.*) and China Yinrui (HK) Investment Holding Company Limited, both are wholly owned subsidiaries of the Company, on 6 April 2010 and 6 May 2010 respectively. Mr. Lu was previously the legal representative of 揚州恒信空調銷售有限公司 (Yangzhou Hengxin Airconditioner Sales Co., Ltd.*) and 揚州滙德電器營銷有限公司 (Yangzhou Huide Electronics Distribution Co., Ltd.*). He attended and completed a 384-hour 高級工商管理總裁研修班 (Training Course of Business Administration and Management of Chief Executives*) launched by 清華大學繼續教育學院 (the School of Continuing Education of Tsinghua University*), and comprised 160-hour physical attendance study and 224-hour long distance study. He also completed a nine-month MBA Core Course, Executive Development Programs launched by 南京大學 (Nanjing University*) in September 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhou Shuiwen (周水文先生), aged 50, was appointed as an independent non-executive Director of our Company since 5 March 2010. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. He joined 上海永宣創業投資管理有限公司 (Shanghai NewMargins Growth Investment Management Co., Ltd.*, formerly known as 上海聯創投資管理有限公司 (Shanghai Lianchuang Investment Management Co., Ltd.*)) ("Shanghai NewMargins") in 1999, and is currently one of the partners of Shanghai NewMargins. Mr. Zhou was a director of 珠海歐比特控制工程股份有限公司 (Zhuhai Orbita Control Engineering Co., Ltd.*) (stock code: 300053), which is a company listed on Shenzhen Stock Exchange, between March 2008 and February 2015. He was a director of 鄭州煤礦機械集團股份有限公司 (Zhengzhou Coal Mining Machinery Group., Ltd.*) (stock code: 601717), which is a company listed on Shanghai Stock Exchange, between December 2008 and March 2012. Mr. Zhou obtained his bachelor degree of engineering in bioengineering from 上海科學技術大學 (Shanghai University of Science and Technology, currently known as 上海大學 (Shanghai University*)) in 1989.

Mr. Tam Chun Chung (譚振忠先生), aged 44, was appointed as an independent non-executive Director of our Company on 5 March 2010. He is also the chairman of the Audit Committee. Mr. Tam has more than 21 years of experience in the accounting and audit field. Mr. Tam has been an independent non-executive director of Lap Kei Engineering (Holdings) Limited (stock code: 8369), which is a company listed on the Gem Board of the Stock Exchange, since 10 September 2015. He has been a joint company secretary of 中國中鐵股份有限公司 (China Railway Group Limited*) (stock code: 390), which is a company listed on the Main Board of the Stock Exchange, since November 2007. Prior to joining 中國中鐵股份有限公司 (China Railway Group Limited*), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (stock code: 549), which is a company listed on the Main Board of the Stock Exchange, from September 2005 to November 2007. Between 2000 and 2005, he worked in the finance department in China Motion Telecom International Limited (stock code: 989), which is a company listed on the Main Board of the Stock Exchange, as an assistant manager, and was subsequently promoted to the position as a senior manager. From 1994 to 2000, Mr. Tam was employed by KPMG and was subsequently promoted to the position as an assistant manager. He has been a member of the Hong Kong Institute of Certified Public Accountants since December 1997 and a fellow of the Chartered Association of Certified Accountants since November 2002. Mr. Tam graduated from the Chinese University of Hong Kong in December 1994 with degree of bachelor of business administration. He further obtained an Executive Master of Business Administration from the Chinese University of Hong Kong in November 2015.

Mr. Lo Kwong Shun Wilson (羅廣信先生), aged 43, was appointed as an independent non-executive Director of our Company on 17 July 2013. He is also the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee. Mr. Lo has more than 14 years' experience in investment banking and advising on corporate finance and three years' experience in accounting and auditing. He has been working at Guotai Junan Capital Limited since 2002 and is currently a managing director, where he has been involved in various listing and restructuring transactions. Prior to that, from 1999 to 2002, he worked at Kingsway Capital Limited and BOCI Asia Limited, responsible for handling corporate finance assignments and assisting the analysis of various proposed listing projects while working alongside other professionals. Between 1996 and 1999, Mr. Lo worked at KPMG and was responsible for the audit of companies of various industry sectors. Mr. Lo has been independent non-executive directors of Kingdom Holdings Limited (stock code: 528) since May 2010, Raymond Industrial Limited (stock code: 229) since January 2013 and Wuzhou International Holdings Limited (stock code: 1369) since May 2013, all of which are listed on the Main Board of The Stock Exchange. Mr. Lo has been a member of the American Institute of Certified Public Accountant since December 1999 and a member of Hong Kong Institute of Certified Public Accountant since September 2005. He has also been a chartered financial analyst registered with the Association for Investment Management and Research since September 2001. Mr. Lo obtained his bachelor degree in commerce from University of British Columbia in May 1995.

The English names of the PRC entities mentioned in the directors' profile marked "" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

SENIOR MANAGEMENT

Mr. Guo Guangzhong (郭廣忠先生), 39, is the assistant to the general manager of the Company, and is responsible for marketing and management of the Group's self-operated stores, and the overall management and implementation of the Group's businesses under the Rural Appliance Rebate Program and the Change of the Old for New Program. He joined the Group in December 2002. Mr. Guo obtained a high diploma in civil engineering and architecture from 南京建築工程學院 (Nanjing Institute of Architectural and Civil Engineering*, which was merged with other institutes to form 南京工業大學 (Nanjing University of Technology*)) in 2000. In 2006, he completed a 120-hour course of 零售賣場管理設計高級研修班 (the Advanced Level on Management and Design of Retail Premises*) launched by 清華大學美術學院培訓中心 (the Training Centre of the Academy of Fine Arts of Tsinghua University*).

Mr. Sun Qingxiang (孫清翔), 40, general manager of Huide Electronics, is responsible for the overall management of Yangzhou Huide. Mr. Sun joined our predecessor, Yangzhou Jiaojiadian, in 2001 and Yangzhou Huiyin since its establishment as business manager responsible for the development of and distribution in the network of towns and villages. He has close to 15 years of experience in the home appliances and consumer electronic products industry.

The English names of the PRC entities mentioned in the senior management's profile marked "" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

TO THE SHAREHOLDERS OF
HUIYIN SMART COMMUNITY CO., LTD.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Huiyin Smart Community Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 151, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Rebates from suppliers and provision for supplier rebates receivable, and
- Revenue recognition – existence and cut-off

Key Audit Matters	How our audit addressed the Key Audit Matters
Accruals of rebates from suppliers and provision for supplier rebates receivable	
Refer to note 4(a) and note 15 to the consolidated financial statements. The Group enters into agreements with various suppliers whereby the Group is entitled to inventory purchase rebates primarily upon achievement of specified volume purchasing levels. The Group assesses the entitled supplier rebates as earned, and adjusts them by taking into consideration of the estimated recoverability based on the historical rebates settlement record and the future purchase plan of the Group from these suppliers. The accruals of supplier rebates receivable will be made after such adjustments, and initially recorded as a deduction in inventories and subsequently reflected them as a reduction in cost of sales when the related merchandise is sold. Slowdown in the markets in which the Group operates, or a significant change in the credit quality of suppliers may result in the rebates actually received varying from that accrued in the consolidated financial statements.	In assessing the appropriateness of the accrual of the rebates receivable from suppliers during the year ended 31 December 2016, we performed audit procedures as follows: (1) We obtained the calculations of the rebates receivables from the Group's management, understood, evaluated and tested its control in determination of these rebates; (2) We obtained and examined agreements with suppliers on a targeted basis, considering the significance of the rebates receivable and rebates entitled by the Group from each supplier, to ensure the consistency with these terms; (3) We sent confirmations to suppliers to confirm both the rebates receivable balance as at 31 December 2016 and the rebates entitled by the Group for the year ended 31 December 2016 on a targeted basis, considering the significance of the rebates receivable and rebates entitled by the Group from each supplier; (4) We assessed the adjustments made on the estimation of the recoverability of those rebates receivables, by reviewing the historical rebates settlement records in the past five years, comparing the future purchase plans with business forecast for suppliers on a targeted basis, considering the significance of rebates receivable from each supplier, and other supporting document provided by the Group's management;

Key Audit Matters	How our audit addressed the Key Audit Matters
Provision for impairment of supplier rebates receivable is made if necessary, taking into account of the credit quality and financial positions of the suppliers. We focused on this area because of the complicated and subjective judgments required on estimating the recoverability for accrual of the rebates receivable and provision for impairment of rebates receivable, and the significance of net book value of supplier rebates receivable (RMB97,404,000 as at 31 December 2016).	(5) We checked the accuracy of the calculations, and reviewed the related journal entries for appropriateness of the records. In assessing the provision made for impairment of supplier rebates receivables, we evaluated key assumptions and judgements made by the Group's management on the recoverability of those rebates receivable by reviewing indication of worsen creditability of the suppliers. Based on our audit procedures performed, we consider the management' s estimates and judgement applied in making the accruals of rebates from suppliers, and provision for supplier rebates receivables were consistent with the evidence we have obtained.
Revenue recognition – existence and cut-off	
Refer to note 2.25 and note 26 to the consolidated financial statements. For the year ended 31 December 2016, the total amount of revenue generated from sales of merchandises was RMB1,373,982,000 (2015: 2,033,640,000). The Group's revenue generates from sales of merchandises includes distribution and retail of household appliances and retail of imported merchandises through on line and off line channels. The Group recognises revenue generated from sales of merchandises upon goods received by customers. We focused on the existence and cut-off of revenue recognition because it required significant time and resource to audit due to the large amount and volume of transactions.	We understood, evaluated and tested the design and operating effectiveness of key controls in relation to the recognition of revenue. We understood and reviewed the revenue recognition policy of the Group by reviewing the sales contracts entered into with customers on sampling basis. In assessing the appropriateness of the existence of revenue recognition for the year ended 31 December 2016, we performed audit procedures as follows: 1) We conducted testing of revenue generated from sales of merchandises, using sampling techniques, by tracing the financial records to, as applicable, customers' orders, invoices, delivering notes signed by customers, daily sales reports of the related store and customers' payment records to agree the quantity, amount and period.

Key Audit Matters	How our audit addressed the Key Audit Matters
	2) We sent confirmations to customers to confirm the balance of accounts receivables on a targeted basis, considering the significance of the balance of accounts receivables from each customer. 3) We performed research procedures for customers on a targeted basis, considering the nature and characteristics of those customers, by checking each customer's register information on the official website of local industrial and commercial bureaus to verify the existence of those customers. 4) We also checked the sales return occurred subsequently, using sampling technique, by agreeing the quantity, amount and period of sales return transaction and reviewing the approval procedures carried out by management. In assessing the appropriateness of the cut-off of revenue recognition for the year ended 31 December 2016, we tested the sales transaction recorded before and after the balance sheet dates, using sampling techniques, by tracing to the relevant delivering notes signed off by customer to ensure the revenue was recognised in the correct periods. Based on our audit procedures performed, we did not note any significant exception on the existence or cut-off of revenue recognition in the consolidated financial statements of the Group.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND AUDIT COMMITTEE 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 HKFRSs issued by the HKICPA 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible 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. We report our opinion solely to you, as a body 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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 Tang Wai Tung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	45,857	46,965
Property, plant and equipment	7	225,737	238,734
Investment properties	8	5,405	5,575
Intangible assets	9	3,744	3,672
Investment in and loan to a joint venture	10	—	261,944
Investment in an associate	11	934	1,181
Deferred income tax assets	12	11,486	169,788
		293,163	727,859
Current assets			
Inventories	13	228,547	293,878
Trade and bills receivables	14	68,524	83,616
Prepayments, deposits and other receivables	15	499,756	934,449
Restricted bank deposits	16	646,712	603,040
Cash and cash equivalents	17	159,118	71,500
		1,602,657	1,986,483
Total assets		1,895,820	2,714,342
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	11,462	9,708
Reserves	19	302,852	754,758
		314,314	764,466
Non-controlling interests in equity		22,436	12,833
Total equity		336,750	777,299

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	7,358	6,722
Deferred income tax liabilities	12	211	211
Deferred government grants	23	2,701	2,760
		10,270	9,693
Current liabilities			
Trade and bills payables	20	850,852	891,379
Accruals and other payables	21	326,047	301,175
Borrowings	22	305,084	532,340
Current income tax liabilities		13,257	148,896
Other current liabilities	24	53,560	53,560
		1,548,800	1,927,350
Total liabilities		1,559,070	1,937,043
Total equity and liabilities		1,895,820	2,714,342

The notes on pages 65 to 151 are an integral part of these financial statements.

Cao Kuanping
Director

Wang Zhijin
Director

Consolidated Income Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	26	1,384,029	2,053,850
Cost of sales	29	(1,327,070)	(1,933,013)
Gross profit		56,959	120,837
Other income	27	20,221	22,770
Other losses— net	28	(90,676)	(33,958)
Selling and marketing expenses	29	(188,474)	(159,316)
Administrative expenses	29	(456,516)	(334,412)
Operating loss		(658,486)	(384,079)
Finance income	32	11,807	40,780
Finance costs	32	(54,122)	(80,150)
Finance costs — net	32	(42,315)	(39,370)
Share of loss of a joint venture	10	(1,148)	(14,904)
Share of (loss)/profit of an associate	11	(211)	442
Loss before income tax		(702,160)	(437,911)
Income tax (expense)/credit	33	(28,026)	7,001
Loss for the year		(730,186)	(430,910)
Attributable to:			
– Equity holders of the Company		(722,752)	(398,598)
– Non-controlling interests		(7,434)	(32,312)
		(730,186)	(430,910)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	34	(45.25)	(31.24)
– Diluted	34	(45.25)	(31.24)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

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

The notes on pages 65 to 151 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Share capital RMB'000 (Note 18)	Share premium RMB'000 (Note 19)	Statutory reserves RMB'000 (Note 19)	Other reserves RMB'000	Accumulated losses RMB'000 (Note 19)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the Company							
Balance at 1 January 2015		7,819	884,938	28,007	(57,432)	(61,655)	801,677	45,145	846,822
Comprehensive loss									
Loss/total comprehensive loss for the year 2015		–	–	–	–	(398,598)	(398,598)	(32,312)	(430,910)
Issue of ordinary shares	18	1,889	316,340	–	–	–	318,229	–	318,229
Share Option Scheme - value of employee services	18	–	–	–	43,158	–	43,158	–	43,158
Total transactions with owners, recognised directly in equity		1,889	316,340	–	43,158	–	361,387	–	361,387
Balance at 31 December 2015		9,708	1,201,278	28,007	(14,274)	(460,253)	764,466	12,833	777,299
Balance at 1 January 2016		9,708	1,201,278	28,007	(14,274)	(460,253)	764,466	12,833	777,299
Comprehensive loss									
Loss/total comprehensive loss for the year 2016		–	–	–	–	(722,752)	(722,752)	(7,434)	(730,186)
Issue of ordinary shares		1,754	179,131	–	–	–	180,885	–	180,885
Share Option Scheme - value of employee services	18	–	–	–	44,832	–	44,832	–	44,832
Capital contribution from non-controlling interests		–	–	–	52,440	(5,557)	46,883	17,037	63,920
Total transactions with owners, recognised directly in equity		1,754	179,131	–	97,272	(5,557)	272,600	17,037	289,637
Balance at 31 December 2016		11,462	1,380,409	28,007	82,998	(1,188,562)	314,314	22,436	336,750

The notes on pages 65 to 151 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows used in operating activities:			
Cash used in generated from operations	36	(116,949)	(108,244)
Interest paid		(41,799)	(71,855)
Income tax paid		(5,456)	(6,677)
Net cash used in operating activities		(164,204)	(186,776)
Cash flows from investing activities:			
Cash acquired from acquisition of a subsidiary	10	16,789	—
Proceeds from disposal of subsidiary, net of cash disposed	10	162,895	—
Purchase of property, plant and equipment	7	(1,877)	(41,015)
Purchase of intangible assets	9	(1,600)	(1,893)
Proceeds from disposal of property, plant and equipment	7	816	1,765
Additional loan to a joint venture	10	(17,200)	(4,080)
Interest received		11,824	45,190
Net cash generated from/(used) in investing activities		171,647	(33)
Cash flows from financing activities:			
Proceeds from bank borrowings	22	315,408	546,819
Proceeds from advance from third parties	21	428,059	68,200
Proceeds from issuance of convertible bonds	22	—	65,984
Proceeds from issuance of bonds payables	22	—	6,244
Repayments of bank borrowings	22	(478,639)	(756,379)
Repayments of advance from third parties	21	(359,800)	(5,200)
Redemption of convertible bonds	22	(68,944)	—
Repayments of medium-term notes	22	—	(390,000)
Restricted bank deposits pledged for bank borrowings	16	(478)	378,765
Proceeds from issurance of ordinary shares	18	180,885	318,229
Capital contribution from non-controlling interests		63,920	—
Net cash generated from financing activities		80,411	232,662
Increase in cash and cash equivalents		87,854	45,853
Cash and cash equivalents at beginning of the year	17	71,500	25,314
Exchange differences on cash and cash equivalents		(236)	333
Cash and cash equivalents at end of the year	17	159,118	71,500

The notes on pages 65 to 151 are an integral part of these financial statements.

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Going Concern

The Group meets its day-to-day working capital requirements through its operating cash inflow and banking facilities. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's merchandises; and (b) the availability of banking finance for the foreseeable future. The Group's forecasts and projections show that the Group should be able to operate with financing within the level of its current banking facilities secured by the Group's assets and guaranteed by related parties together with its internally generated funds from operating cash flows, taking into account of reasonably possible changes in trade performance. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 22.

2.1.2 Changes in accounting policy and disclosures

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4 below.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 Changes in accounting policy and disclosures *(continued)*

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

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

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

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

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

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

- Amendments to HKAS 12 'Income Taxes' (effective for annual periods beginning on or after 1 January 2017)

- Amendments to HKAS 7 'Statement of Cash Flows' (effective for annual periods beginning on or after1 January 2017)

- HKFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 1 January 2018)

- HKFRS 9 'Financial Instruments' (effective for annual periods beginning on or after1 January 2018)

- HKFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019)

- Amendments to HKFRS 10 and HKAS 28 'Regarding sale or contribution of assets between an investor and its associateor joint venture' (effective for annual periods to be announced)

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Accounting policy for contingent consideration is set out in Note 2.18.

The excess of the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If sum of those amounts is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(b) Transactions with non-controlling interests on ownership of subsidiaries without loss of control

The Group applies a policy of treating transactions with non-controlling interests on ownership of subsidiaries without loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statement

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates *(continued)*

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profits and losses of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of a new joint arrangement effective during the year regarding the operations of a previous 100% controlled subsidiary and determined it to be joint venture. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interest that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chairman and executive directors of the Company that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the applicable exchange rates quoted by the People's Bank of China prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) — net'.

2.7 Land use rights for own use

All land in the PRC is state-owned or collectively-owned and no individual land ownership rights exists. The Group acquired the rights to use certain land for its own operations. The premiums paid for such rights are treated as prepayments for operating leases and recorded as land use rights, which are amortised over the period of the lease using the straight-line method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress (the "CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

	Depreciation life	Residual value
Buildings	40 years	5%
Machinery	10 years	5%
Motor vehicles	5 years	5%
Electronic and office equipment	5 years	5%
Leasehold improvements	5 to 8 years or the remaining term of any non-renewable lease, whichever is shorter	—

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other losses - net', in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the entities in the Group, is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses. The cost less accumulated impairment and residual values of investment properties are depreciated on a straight-line basis over their estimated useful lives of 40 years.

2.10 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 10 years.

(b) Distribution agreement

Distribution agreement arising from the acquisition of a subsidiary in year 2011 is initially recognised at fair value. Distribution agreement has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of distribution agreement over the estimated useful lives of 10 years.

(c) Non-compete agreements

Non-compete agreements arising from the acquisition of business in year 2010 and 2011 are initially recognised at fair value. Non-compete agreements have definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of non-compete agreements over the estimated useful lives of 5 and 6 years respectively.

(d) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the total of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Investments in subsidiaries are also assessed for impairment when dividend is received (Note 2.2.2).

2.12 Inventories–merchandise held for resale and low value consumables

Inventories comprise merchandise purchased for resale and low value consumables, and are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cost of merchandise, representing its purchase cost, is determined by using the first-in-first-out basis for household appliance merchandise and using the weighted-average basis for import merchandise respectively. Supplier rebates are accrued as earned and are recorded initially as a reduction in inventories and subsequently reflected as a reduction in cost of sales when the related merchandise is sold. The supplier rebates are assessed by taking into consideration of the estimated recoverability based on the historical rebates settlement record and the future purchase plan of the Group from these suppliers.

2.13 Inventories– land use rights acquired for property development for sale

Such land use rights are included in current assets as inventories and are measured at the lower of cost and net realisable value unless they fall out of the normal operating cycle in which case they are classified as non-current assets. Construction and other costs for the property development including any capitalised borrowing costs incurred during the development period are also recorded as part of the inventory cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Trade, bills and other receivables

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, bills and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and are grouped with bank overdrafts in the cash flow statement. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade, bills and other payables

Trade, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Contingent consideration

The Group classifies an obligation to pay contingent consideration for the acquisition of a business as financial liability at fair value through profit or loss. It is recognised initially at fair value at the acquisition date, and subsequently measured at fair value, with any resulting gain or loss recognised in "other loess— net".

Contingent consideration liabilities within one year and over one year are classified in other current liabilities and other non-current liabilities respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.20 Convertible bonds

Convertible bonds issued by the Group that contain conversion option which is not closely related to the debt host contract is recognised as financial liabilities at fair value through profit or loss as a whole, which is initially and subsequently measured at fair value, with changes in fair value recognised in profit or loss. The fair value of the convertible bonds are determined at the issuance date and each subsequent balance sheet dates based on valuations performed by an independent valuer. Transactions costs (if any) directly attributable and incremental to the issue are recognised in profit or loss immediately.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Current and deferred income tax *(continued)*

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, and the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Employee benefits — pension obligations (defined contribution plan)

A defined contribution plan is a pension plan under which the Group pays contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

The Group has participated in defined contribution plans administered by the relevant authorities in the PRC for its employees. The Group is required to pay monthly contributions to these plans at certain percentage on relevant portion of the payroll of these employees to fund the benefits. The relevant authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees of the Group under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

2.23 Share-based payments

The Group operates equity-settled share option scheme, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Provision and contingent liability

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the Group's financial statements when an inflow of economic benefits is probable. When inflows is virtually certain, an asset is recognised.

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities within the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Revenue recognition *(continued)*

(a) Sales of goods — bulk distribution

The Group sells a range of household appliances merchandise by bulk distribution to its franchisees, other retailers and distributors. Sales of goods are recognised when the merchandises have been transported to the specified location, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the merchandises in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The household appliance merchandises are often sold with volume discounts, and sales are recorded based on the price specified in the sales orders, net of the estimated volume discounts at the time of sale. Accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases and periodic policies granted to customers, and are adjusted to the actual amounts when these become finalised. No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with the market practice.

(b) Sales of goods — retail

The Group operates a chain of retail stores for selling household appliance and import merchandises. Sales of goods are recognised when a Group entity sells the merchandise to the customer. Retail sales are usually in cash or by credit card.

(c) Sales of goods — online sales

Revenue from online sales is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of receipt. Transactions are settled by credit or payment card. Provisions are made for internet credit notes based on the expected level of returns, which in turn is based upon the historical rate of returns.

(d) Rendering of services

The Group renders maintenance and installation services to end customers. Revenue from such services is recognised when services have been provided and the collectibility of the related receivables is reasonably assured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Revenue recognition *(continued)*

(e) Commission income

The commission income generated from providing agency service for sales of lotteries is recognised when the lottery sale is made.

(f) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(g) Promotion income

Promotions income is recognised when the services are provided and in accordance with agreements with relevant suppliers.

(h) Rental income

Rental income from renting of properties under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

(i) Membership fee income

Membership fee income is recognised on an account basis in accorandance with the substance of relevant agreements. Such an income is amortised to the income statement on a straight-line basis over the membership period.

(j) Dividend income

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to future costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs they are intended to compensate. Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to an entity within the Group with no future related costs are recognised as income of the period in which they become receivable.

Government grants relating to non-current assets are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.27 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights are charged to the income statement on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Company's equity holders is recognised, as a liability where applicable, in the Company's and the Group's financial statements in the period in which the dividends are approved by the Company's equity holders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group operates mainly in the PRC and is exposed to foreign exchange risk arising primarily from the US dollar ("US$") and the HK dollar ("HK$"). Foreign exchange risk arises from the bank borrowings denominated in US$.

Fluctuation of the exchange rates of functional currency against foreign currencies could affect the Group's result of operations. During the year, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risk which mainly arise from US$ bank borrowings with a total amount of US$7,600,000 bonds payable with a total amount of HK$10,000,000 as at 31 December 2016 (2015: bank borrowings of US$18,900,000 bonds payable of HK$10,000,000 and convertible bonds of HK$80,000,000). The Group does not have a foreign currency hedging policy. However, the directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting appropriate foreign currency hedging policy in thefuture.

As at 31 December 2016, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, post-tax loss of the Group for the year would have been RMB2,636,000 lower/higher (2015: post-tax loss would have been RMB4,602,000 lower/higher), mainly as a result of net foreign exchange gains/losses on translation of US$ denominated bank borrowings; if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, post-tax loss of the Group for the year would have been RMB447,000 lower/higher (2015: post-tax loss would have been RMB2,726,000 lower/higher), mainly as a result of net foreign exchange gains/losses on translation of HK$ denominated bonds payable and convertible bonds.

(b) Cash flow and fair value interest rate risk

Other than bank deposits with stable interest rate (Notes 16 and 17), the Group has no other significant interest-bearing assets. Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates of RMB52,721,000 (2015: RMB122,729,000) expose the Group to cash flow interest rate risk, and such borrowings are denominated in the US$. As at 31 December 2016, if interest rate on such borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax loss of the Group for the year would have been RMB447,000 higher/lower (2015: post-tax loss would have been RMB9,205,000 higher/lower) mainly as a result of higher/lower interest expense on borrowings with variable rates. Borrowings obtained at fixed rates of RMB252,363,000 (2015: RMB414,706,000) exposed the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 22.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk

Majority of the Group's sales are settled in cash, credit card or check by its customers on delivery of goods. The carrying amounts of the bank balances, trade and bills receivables, deposits and other receivables after deducting the provision for doubtful debts best represent the maximum credit exposure of the Group.

(i) Deposits with banks

The Group maintains substantially most of its bank balances and cash in interest-bearing accounts in several nationwide and regional renowned financial institutions in the PRC without significant credit risk. Management does not expect any significant losses from non-performance of these financial institutions. The five largest bank deposit balances for the restricted bank deposits and cash and cash equivalents are listed as below:

		As at 31 December	
	Rating (Note)	2016 RMB'000	2015 RMB'000
Five largest restricted bank deposits			
– Shanghai Pudong Development Bank	A-2	167,326	50,000
– China Minsheng Bank	A-2	86,273	81,500
– Bank of China	A-1	81,750	136,945
– China Merchants Bank	A-2	61,470	48,195
– China Guangfa Bank	N/A	48,000	9,000
		444,819	325,640
Five largest cash and cash equivalents			
– Bank of Communications	A-2	63,609	20,033
– China Guangfa Bank	N/A	20,041	20,012
– China Construction Bank	A	18,697	9,310
– China Minsheng Bank	A-2	15,161	1,028
– Bank of China	A-1	10,602	4,459
		128,110	54,842

Note:

These are Standard and Poor's short term credit ratings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(ii) Receivables

Trade receivables are due from wholesale customers with an appropriate financial strength. The Group grants the average credit term to these customers ranging from 30 days to 90 days, and the balances exceeding the credit term are closely monitored by the Group.

Bills receivables are the bills issued by customers and accepted by banks, they are expired usually in 3 months to 6 months. The directors are of the opinion that there is no significant credit risk on those bills, because most of the bills are accepted by several nationwide and regional renowned financial institutions in the PRC without significant credit risk.

Supplier rebate receivables are due from suppliers upon achievement of specified volume purchasing levels. Management assesses the credit risk of suppliers by taking into account of the credit quality and financial position of the suppliers. The Group keeps long-term relationship with those suppliers and the collection of the supplier rebates are closely monitored by senior officials of the Group.

Other receivables mainly comprise the rental deposits. Rental deposits are placed with various landlords in the PRC and are due upon the expiry of the tenancy agreements and handover of the leased premises.

The carrying amount of receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets.

(d) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities from commercial banks and the ability to close out market positions. Management of the Group will manage the Group's 2017 working capital and capital expenditure by taking below factors into consideration: i) due to gradual change of business model starting from these years, less distribution of brand air-conditioning products significantly reduced cash flow requirement in prepayment of inventory; ii) management has plan to renew the existing borrowings facilities; and iii) it does not expect to have significant capital expenditure including construction payment in 2017.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(d) Liquidity risk *(continued)*

The table below analyses the Group's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 3 months RMB'000	Between 3 to 6 months RMB'000	Between 6 to 12 months RMB'000	Between 1 to 2 years RMB'000	Over 2 years RMB'000
As at 31 December 2016					
Borrowings (Note 22)	69,186	25,000	210,898	—	10,000
Interest payments on borrowings (note)	3,362	2,828	3,323	400	1,754
Trade and bills payables (Note 20)	649,242	201,610	—	—	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 21)	211,673	7,500	—	—	—
	933,463	236,938	214,221	400	11,754
As at 31 December 2015					
Borrowings (Note 22)	195,910	10,000	326,430	—	10,000
Interest payments on borrowings (note)	4,558	3,447	8,330	503	3,016
Trade and bills payables (Note 20)	587,155	304,224	—	—	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 21)	73,399	58,600	—	—	—
	861,022	376,271	334,760	503	13,016

Note:

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2016 and 2015 without taking into account of future borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings as shown on the consolidated balance sheet. Total capital is calculated as total 'equity', as shown on the consolidated balance sheet, plus total borrowings.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Total borrowings (Note 22)	312,442	539,062
Total equity	336,750	777,299
Total capital	649,192	1,316,361
Gearing ratio	48.13%	40.95%

The changes in the gearing ratios during the year were primarily due to a decrease in the borrowing balances while there was an decrease in equity arising from net loss for the year.

3.3 Fair value estimation

The different levels in determining the fair value of derivatives and other financial instruments are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair values of issued convertible bonds (Note 22) and contingent consideration arising from the business combination (Note 24) were measured at fair value by level 3.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2016:

	Convertible bonds at fair value through profit or loss RMB'000	Contingent consideration liabilities arising from business combination RMB'000	Total RMB'000
Opening balance	67,611	53,560	121,171
Effect of change in exchange rate	1,938	—	1,938
Gain recognised in profit or loss	(605)	—	(605)
Redemption of convertible bonds	(68,944)	—	(68,944)
Closing balance	—	53,560	53,560

The following table presents the changes in level 3 instruments for the year ended 31 December 2015:

	Convertible bonds at fair value through profit or loss RMB'000	Contingent consideration liabilities arising from business combination RMB'000	Total RMB'000
Opening balance	—	53,560	53,560
Issuance of convertible bonds	65,984	—	65,984
Losses recognised in profit or loss	1,627	—	1,627
Closing balance	67,611	53,560	121,171
Change in unrealised losses for the year included in profit or loss for liabilities held at the end of the year	1,627	—	1,627

See Note 22 for disclosures of the measurement of the convertible bonds and Note 24 for disclosures of the measurement of the contingent consideration.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.4 Group's valuation processes

The Group's finance department includes a team that performs the valuations of financial assets and liabilities required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates.

The main level 3 input used by the Group for financial assets and liabilities pertains to the discount rate for contingent consideration. It is estimated based on the market conditions.The main level 3 inputs used by the Group for the Group's convertible bonds are set out in Note 22.

3.5 Fair values of financial assets and liabilities measured at amortised cost

As at 31 December 2016 and 2015, the fair values of all financial assets and liabilities measured at amortised cost approximate their carrying amounts.

3.6 Offsetting of financial assets and liabilities

There has been no offsetting of financial assets and liabilities as at the balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Accruals of rebates from suppliers and provision for supplier rebates receivable

(i) Accruals of supplier rebates receivable

The Group enters into agreements with various suppliers whereby the Group is entitled to inventory purchase rebates primarily upon achievement of specified volume purchasing levels. The Group assesses the entitled supplier rebates as earned, and adjusts them by taking into consideration of the estimated recoverability based on the historical rebates settlement record and the future purchase plan of the Group from these suppliers. The accruals of supplier rebates receivable will be made after such adjustments, and initially recorded as a deduction in inventories and subsequently reflected them as a reduction in cost of sales when the related merchandise is sold.

(ii) Provision for supplier rebates receivable

Slowdown in the markets in which the Group operates, or a significant change in the credit quality of suppliers may result in the rebates actually received varying from that accrued in the consolidated financial statements.

Provision for impairment of supplier rebates receivable is made if necessary, taking into account of the credit quality and financial positions of the suppliers. During the year, accrual of provision of RMB269,929,000 (2015: RMB198,225,000) for impairment of supplier rebates receivable had been recognised in 'administrative expenses' (Note 15).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Estimated impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of CGUs have been determined based on fair value less costs of disposal calculations. These calculations require the use of estimates (Note 9).

Impairment on the goodwill of RMB34,060,000 allocated to the CGU of Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd. ("Anhui Four Seas", formerly known as "Huainan City Four Seas Huiyin Household Appliances Co., Ltd.") and the goodwill of RMB14,163,000 allocated to the CGU of Nanjing Chaoming Technology Development Co., Ltd. ("Nanjing Chaoming") had all been fully impaired and there will not be any further charge.

(c) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As at 31 December 2016, the Group had deferred income tax assets accounting to approximately RMB11,486,000 (2015: RMB169,788,000); and deferred income tax liabilities of approximately RMB211,000 (2015: RMB211,000). To the extent it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from impairment provision of inventories and receivables, temporary differences arising from depreciation, certain accrual items and unused tax losses. However the outcome of their actual utilisation may be different.

Additionally, the Group had not recognised a deferred tax liability for certain unremitted earnings of its PRC subsidiaries. The Group believes it is able to control the timing of when the earnings will be distributed to the overseas holding companies and such distributions will not occur in the foreseeable future.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. The Group will reassess the estimations by the balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(e) Estimated impairment of non-financial assets other than goodwill

The Group follows HKAS 36 to determine whether non-financial assets have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The value in use calculations require the use of estimates.

No impairment charge arose during the years ended 31 December 2016 and 2015 for non-financial assets other than goodwill.

Impairment on the intangible asset of distribution agreement with an allocated cost of RMB22,927,000 arising from the acquisition of Nanjing Chaoming had been fully provided for as at 31 December 2012 and there will not be any further charge.

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

When using valuation techniques to determine the fair value of the Group's convertible bonds, the management of the Group uses to the extent all practicable market parameters that market participants would consider in pricing, including risk-free rate, credit risk, foreign exchange rate, share price and index, future volatility of financial instrument prices and etc. In addition, the management of the Group also estimates credit risk and market volatility for both parties of the transaction when references are lacking.

The contingent consideration liabilities arising from Bonus Consideration with a carrying amount of RMB12,000,000 as at 31 December 2016 and 2015 (Note 24) is subject to the final adjustment, resulting from commercial negotiation with the joint venture partner.

(g) Estimate of fair value of investment properties for disclosure purpose

All the Group's investment properties are accounted for using the cost model. For disclosure purpose, the Group determines the fair value of its investment properties as at each balance sheet date based on a valuation performed by the management of the Group. The valuation is based on a discounted cash flow projection which involves making estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from 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.

5 SEGMENT INFORMATION

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

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

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

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

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

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

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

5 SEGMENT INFORMATION *(continued)*

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

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

Unallocated mainly represented the expenses incurred in the Company, such as Option Scheme expenses, certain key management compensation and exchange gains/(losses) arising from the bank deposits denominated in foreign currencies, and loss on disposal of a subsidiary.

5 SEGMENT INFORMATION *(continued)*

Capital expenditure comprises additions to property, plant and equipment, investment properties, land use rights and intangible assets, including additions resulting from acquisitions through business combinations.

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

Segment assets and liabilities	**Traditional business RMB'000**	**E-commerce and import merchandise business RMB'000**	**All other segments RMB'000**	**Group RMB'000**
Segment assets	725,739	482,946	5,343	1,214,028
Unallocated assets				681,792
Total assets				1,895,820
Segment liabilities	604,377	397,462	1,983	1,033,822
Unallocated liabilities				555,248
Total liabilities				1,559,070

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

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

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

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

6 LAND USE RIGHTS

The Group's interests in land use rights represent upfront payments for land use rights and their net book amounts are analysed as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Opening net book amount	46,965	48,149
Amortisation (Note 29)	(1,108)	(1,184)
Closing net book amount	45,857	46,965
Cost	51,539	51,539
Accumulated amortisation	(5,682)	(4,574)
Closing net book amount	45,857	46,965

All of the Group's land use rights are located in Mainland China and are held on leases between 10 to 50 years.

Amortisation of the Group's land use rights has been charged to administrative expenses in the consolidated income statement.

As at 31 December 2016, land use rights with a net book amount of RMB11,195,000 (31 December 2015: RMB11,471,000) together with certain buildings (Note 7) had been pledged as collateral for the Group's bank borrowings of RMB43,600,000 (31 December 2015: RMB48,000,000) (Note 22).

As at 31 December 2016, land use rights with a net book amount of RMB4,293,000 (31 December 2015: RMB4,453,000) together with certain buildings (Note 7) and investment properties (Note 8) had been pledged as collateral for the Group's bank borrowings of RMB54,000,000 (31 December 2015: RMB54,000,000) (Note 22).

As at 31 December 2015, land use rights with a net book amount of RMB25,192,000 together with certain buildings (Note 8) and restricted bank deposits (Note 17) had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 (Note 22) as well as the Group's bank acceptance bills of RMB40,000,000 (Note 20).

As at 31 December 2015, land use rights of a land parcel owned by a joint venture (Note 10) with a net book amount of RMB244,558,000 had been pledged as collateral for the Group's bank borrowings of RMB100,000,000 (Note 22).

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Electronics and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2014						
Cost	218,722	24,302	12,888	36,440	–	292,352
Accumulated depreciation	(32,399)	(10,301)	(7,699)	(18,673)	–	(69,072)
Net book amount	186,323	14,001	5,189	17,767	–	223,280
Year ended 31 December 2015						
Opening net book amount	186,323	14,001	5,189	17,767	–	223,280
Additions	36	7,010	183	–	33,786	41,015
Disposals		(1,603)	(60)	–	–	(1,663)
Transfer upon completion of construction	–	–	–	33,786	(33,786)	–
Depreciation (Note 29)	(5,950)	(2,893)	(1,002)	(14,053)	–	(23,898)
Net book amount	180,409	16,515	4,310	37,500	–	238,734
At 31 December 2015						
Cost	218,758	28,426	12,790	66,132	–	326,106
Accumulated depreciation	(38,349)	(11,911)	(8,480)	(28,632)	–	(87,372)
Net book amount	180,409	16,515	4,310	37,500	–	238,734
Year ended 31 December 2016						
Opening net book amount	180,409	16,515	4,310	37,500	–	238,734
Additions	–	5,481	154	–	5,992	11,627
Disposals	–	(613)	(345)	–	–	(958)
Transfer upon completion of construction	–	–	–	5,992	(5,992)	–
Acquisition of a subsidiary (Note 10)	–	213	–	–	–	213
Disposal of a subsidiary (Note 10)	–	(454)	–	–	–	(454)
Depreciation (Note 29)	(6,036)	(2,193)	(1,817)	(13,379)	–	(23,425)
Net book amount	174,373	18,949	2,302	30,113	–	225,737
At 31 December 2016						
Cost	218,758	32,103	11,880	72,124	–	334,865
Accumulated depreciation	(44,385)	(13,154)	(9,578)	(42,011)	–	(109,128)
Net book amount	174,373	18,949	2,302	30,113	–	225,737

7 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) Depreciation charges were included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Selling and marketing expenses	15,552	17,975
Administrative expenses	7,873	5,923
	23,425	23,898

(b) As at 31 December 2016, buildings with a net book amount of RMB122,118,000 (2015: RMB126,569,000) together with certain land use rights (Note 6) had been pledged as collateral for the Group's bank borrowings of RMB43,600,000 (2015: RMB48,000,000) (Note 22).

As at 31 December 2016, buildings with a net book amount of RMB22,267,000 (2015: RMB23,060,000) together with certain land use rights (Note 6) and investment properties (Note 9) had been pledged as collateral for the Group's bank borrowings of RMB54,000,000 (2015: RMB54,000,000) (Note 22).

As at 31 December 2015, buildings with a net book amount of RMB30,780,000 together with certain land use rights (Note 6) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 (Note 22) as well as the Group's bank acceptance bills of RMB40,000,000 (Note 20).

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net book amount disposed	958	1,663
(Loss)/gains on disposal of propertys, plant and equipment (Note 28), net	(142)	102
Proceeds from disposal of property, plant and equipment	816	1,765

8 INVESTMENT PROPERTIES

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
At 1 January	5,575	5,745
Depreciation (Note 29)	(170)	(170)
Closing net book amount	5,405	5,575
Cost	7,146	7,146
Accumulated depreciation	(1,741)	(1,571)
Closing net book amount	5,405	5,575

Investment properties are located in Mainland China on leases of between 10 to 50 years.

The Group chooses the cost model to account for its investment properties and therefore the difference between the fair value and carrying amount of the investment properties and any changes in fair value are not accounted for in these financial statements. The carrying amount of the investment properties would have been RMB6,029,000 had they been stated at fair values as of 31 December 2016 (31 December 2015: RMB6,262,000). The fair values of the investment properties as at 31 December 2016 and 2015 were based on a review performed by the management of the Group, which were determined by discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question. The fair value measurement falls under level 3 of the fair value hierarchy.

As at 31 December 2016, investment properties with a net book amount of RMB5,405,000 (31 December 2015: RMB5,575,000) together with certain land use rights (Note 6) and buildings (Note 7) had been pledged as collateral for the Group's bank borrowings of RMB54,000,000 (31 December 2015: RMB54,000,000) (Note 22).

The depreciation of investment properties has been charged to administrative expenses.

9 INTANGIBLE ASSETS

	Goodwill	Distribution agreement	Non-compete agreements	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015					
Cost	48,223	22,927	4,970	6,744	82,864
Accumulated amortisation	—	(4,585)	(3,920)	(4,425)	(12,930)
Impairment	(14,163)	(18,342)	—	—	(32,505)
Net book amount	34,060	—	1,050	2,319	37,429
Year ended 31 December 2015					
Opening net book amount	34,060	—	1,050	2,319	37,429
Additions	—	—	—	1,893	1,893
Amortisation (Note 29)	—	—	(828)	(762)	(1,590)
Impairement charge (Note 29)	(34,060)	—	—	—	(34,060)
Closing net book amount	—	—	222	3,450	3,672
At 31 December 2015					
Cost	48,223	22,927	4,970	8,637	84,757
Accumulated amortisation	—	(4,585)	(4,748)	(5,187)	(14,520)
Impairment	(48,223)	(18,342)	—	—	(66,565)
Net book amount	—	—	222	3,450	3,672
Year ended 31 December 2016					
Opening net book amount	—	—	222	3,450	3,672
Additions	—	—	—	1,600	1,600
Amortisation (Note 29)	—	—	(222)	(1,306)	(1,528)
Closing net book amount	—	—	—	3,744	3,744
At 31 December 2016					
Cost	48,223	22,927	4,970	10,237	86,357
Accumulated amortisation	—	(4,585)	(4,970)	(6,493)	(16,048)
Impairment	(48,223)	(18,342)	—	—	(66,565)
Net book amount	—	—	—	3,744	3,744

The amortisation and impairment charge of intangible assets have been included in administrative expenses.

9 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill

Goodwill is allocated to the Group's CGU identified according to operating segment. Goodwill of RMB14,163,000 is allocated to the CGU of Nanjing Chaoming and RMB34,060,000 is allocated to the CGU of Huainan Four Seas.

The recoverable amount of a CGU is determined based on higher of value-in-use and fair value less costs to sell calculations. Management determined recoverable amount based on fair value less costs of disposal, which is higher than the value-in-use calculations, as the revenue contributing from new stores to open had been taken into the consideration. These calculations use income approach-discounted pre-tax cash flow method based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

(a) Impairment test for goodwill arose from the acquisition of Nanjing Chaoming

No further impairment charge arose during the course of year 2016 (2015: nil) as impairment on the goodwill had been fully provided for as at 31 December 2012.

In year 2012, considering the actual business performance of Nanjing Chaoming since the acquisition and severe market environment, the management of the Group believed that the future performanceof Nanjing Chaoming under existing strategy will no longer meet management's expectation, either the value-in-use or fair value less costs to sell cannot recover the carrying amount of the goodwill as at 31 December 2012, therefore full impairment was provided.

(b) Impairment test for goodwill arose from the acquisition of Huainan Four Seas

No further impairment change arose during the course of year 2016 as impairment on goodwill of RMB34,060,000 had been fully provided for as at 31 December 2015.

In year 2015, considering the actual business performance of Anhui Four Seas since the acquisition and severe market environment, the management of the Group believes that the future performanceof Anhui Four Seasunder existing strategy will no longer meet management's expectation, either the value-in-use or fair value less costs of disposal cannot recover the carrying amount of the goodwill as at 31 December 2015, therefore full impairment was provided.

The key assumptions used for fair value less costs of disposal calculations of Anhui Four Seas as at 31 December 2015 are as follows:

	After 2015
Terminal growth rate	—
Discount rate	14%

9 INTANGIBLE ASSETS *(continued)*

Impairment charge for distribution agreement arose from the acquisition of Nanjing Chaoming

The distribution agreement arising from the acquisition of Nanjing Chaoming was initially determined at the fair value by applying income approach – multi-period excess earnings method and subject to annual amortisation over the beneficial period of 10 years. For the same reasons as described in the impairment test for goodwill arising from the acquisition of Nanjing Chaoming, the management of the Group assessed the recoverable amount of the distribution agreement in 2012 and concluded that there is no future economic benefits expected, therefore impairment charge of RMB18,342,000 was provided during the course of year 2012, and the carrying amount was reduced to zero as at 31 December 2012 accordingly.

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY

(a) Investment in and loan to a joint venture

In January 2014, Yangzhou Huiyin and itswholly-owned subsidiary,Yangzhou Huiyin Real Estate Co.,Ltd. ("Huiyin Real Estate") entered into a co-operation agreement (the "Co-operation Agreement") with Shanghai Coastal Weiying Equity Investment Fund Management Co., Ltd. (上海沿海威盈股權投資基金管理有限公司) ("Weiying"), a third party fund company. Pursuant to the Co-operation Agreement, the contracting parties conditionally agreed to co-operate to develop the land use rights of a plot of land with an approximate total site area of 26,071 square meters located in Yangzhou City ("Land Parcel") owned by Huiyin Real Estate (the "Project").

Since Huiyin Real Estate held the land use rights of the Land Parcel and the consideration and related expenses totalling RMB245 million for the acquisition of the Land Parcel had been fully paid, Weiying would bear and contribute from time to time all the development and construction costs for the Project. The estimated costs of development and construction was approximately RMB250 million. Yangzhou Huiyin and Weiying would be entitled to share 52% and 48% of the sales revenue of the Project respectively.

Although Weiying would contribute cash to Huiyin Real Estate in the form of working capital rather than paid-in capital, under the co-operation agreement, Yangzhou Huiyin and Weiying would jointly control the legal and financial operations as well as other key relevant activities (such as those activities in relation to construction and sales) of Huiyin Real Estate. The agreement was approved at the extraordinary general meeting of the Company held on 4 March 2014. Accordingly, Huiyin Real Estate became a joint venture and its assets, liabilities and financial results ceased to be consolidated in the accounts of the Group.

Weiying had made a prepayment of contribution into Huiyin Real Estate amounting to RMB10 million in 2013, hence the post-tax loss of RMB1,192,000 incurred before the date of the Co-operation Agreement, which was related to the Project and to be borne by Weiying according to the Co-operation Agreement, had been recognised as loss for the period attributable to non-controlling interests and was then derecognised at the date of the Co-operation Agreement.

The Land Parcel was subject to a charge in favour of Jiangsu Province Credit Re-assurance Co. Ltd. (江蘇省信用再擔保有限公司) registered on 5 February 2013. As at 31 December 2015, land use rights of the Land Parcel with a net book amount of RMB244,558,000 had been pledged as collateral for the Group's bank borrowings of RMB100,000,000 (Note 22).

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(b) Business combination

On 27 January 2016, Yangzhou Huiyin and Huiyin Real Estate entered into a termination agreement (the "Termination Agreement") with Weiying, pursuant to which Weiying is no longer responsible to bear and contribute the development and construction costs of the Project nor is entitled to share any income or interest of the Project occurred at any time. Huiyin Real Estate then became a subsidiary of Yangzhou Huiyin.

(1) Reconciliation for investment in and loan to a joint venture

Set out below are reconciliation for investment in and loan to a joint venture before 27 January 2016, the acquisition date:

	Investment in a joint venture RMB'000	Loan to a joint venture RMB'000	Total RMB'000
Period ended 31 December 2015			
At 1 Jauary 2015	20,600	236,376	256,976
Additions (note)	—	19,872	19,872
Share of loss	(14,904)	—	(14,904)
At 31December 2015	5,696	256,248	261,944
Period ended 27 January 2016, the acquisition date			
At 1 Jauary 2016	**5,696**	**256,248**	**261,944**
Additions (note)	**—**	**18,668**	**18,668**
Share of loss	**(1,148)**	**—**	**(1,148)**
At 27 January 2016	**4,548**	**274,916**	**279,464**

Note:

Additions of loan to the joint venture during 2016 include additional loan principle of RMB17,200,000 (2015: RMB4,080,000) and interest incurred of RMB1,468,000 (2015: RMB15,792,000) (Note 32) during the year.

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(b) Business combination *(continued)*

(1) Reconciliation for investment in and loan to a joint venture *(continued)*

As at 27 January 2016, investment in a joint venture included contributed capital of RMB50,000,000 (31 December 2015: RMB50,000,000) and share of loss of RMB45,452,000 (31 December 2015: RMB44,304,000), whereas loan to a joint venture included principal amount of RMB218,586,000 (31 December 2015: RMB201,386,000) and interest receivable of RMB56,330,000 (31 December 2015: RMB54,862,000). The loan carried an interest calculated at compound rate of 6.6% per annum which will be settled together with the principal amount upon the completion of the Project undertaken by Huiyin Real Estate.

Name of entity	Place of business/country of incorporation	% of ownership interest (Note)	Measurement method
Yangzhou Huiyin Real Estate Co., Ltd.	Yangzhou Jiangsu, PRC	93.14	Equity

Note:

The % of ownership interest presented is the investment amount percentage of the Group in the joint venture. The legal ownership structure of Huiyin Real Estate has not been changed and Yangzhou Huiyin continued to be officially registered as the sole owner. The investment amount percentages of the Group and Weiying are in proportion to the respective aggregated amounts invested by them as at each reporting date. As at 27 January 2016, the investment amount of the Group in Huiyin Real Estate is the aggregate of the consideration for the Land Parcel and related expenses totalling RMB244,558,000, whereas the investment amount of Weiying is the amount of costs and expenses in relation to the Project paid by Weiying totalling RMB18,000,000 (31 December 2015: RMB22,000,000). The investment amount percentage presented is for reference only. The Group will account for the profit and loss of Huiyin Real Estate and its underlying assets and liabilities by applying equity method in its consolidated financial statements and takes into account of the sharing of revenue and expenses as stipulated under the co-operation agreement which does not necessarily coincide with the investment percentage.

Huiyin Real Estate is a private company and there is no quoted market price available for its equity interests.

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(b) Business combination *(continued)*

(2) Summarised financial information of the joint venture

Set out below are the summarised financial information for Huiyin Real Estate which is accounted for using the equity method.

(i) Summarised balance sheet

	As at 27 January 2016, the acquisition date RMB'000	As at 31 December 2015 RMB'000
Current		
Cash and cash equivalents	16,789	301
Inventories	297,985	297,984
Other current assets	2,046	2,992
Total current assets	316,820	301,277
Liabilities	(43,483)	(41,097)
Non-current		
Assets	17,530	17,158
Net assets	290,867	277,338

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(b) Business combination *(continued)*

(2) Summarised financial information of the joint venture *(continued)*

(ii) Summarised statement of comprehensive income

	Period ended 27 January 2016, the acquisition date RMB'000	Year ended 31 December 2015 RMB'000
Revenue	—	—
Administrative expenses	(95)	(4,827)
Finance income	44	237
Finance costs	(1,468)	(15,792)
Loss before income tax	(1,519)	(20,382)
Income tax credit	380	5,095
Loss for the period	(1,139)	(15,287)
Other comprehensive income or loss	—	—
Total comprehensive loss for the period	(1,139)	(15,287)
Dividends received or receivable from joint venture	—	—

The information above reflects the amounts presented in the financial statements of the joint venture, and not the Group's share of those amounts.

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(b) Business combination *(continued)*

(3) Reconciliation of summarised financial information

Set out below are reconciliation of the summarised financial information presenting the carrying amount of the Group's interest in the joint venture:

	Period ended 27 January 2016, the acquisition date RMB'000	Year ended 31 December 2015 RMB'000
Opening net assets	277,338	272,753
Contribution from venturers	14,668	19,872
Loss for the period	(1,139)	(15,287)
Closing net assets	290,867	277,338
less: Contribution from Weiying	(18,000)	(22,000)
Accumulated loss derived from expenses related to the Project and required to be borne by Weiying (note)	4,369	4,378
Excess of consideration paid in transaction with non-controlling interests	2,228	2,228
Carrying amount	279,464	261,944

Note:

As Weiying would bear and contribute from time to time all the costs and expenses relating to the Project, such expenses were not recognised and recorded in the consolidated financial statement of the Group, including the loss of RMB1,192,000 incurred before the date of loss of control which was previously recognised as non-controlling interests and then derecognised at the date of loss of control.

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(b) Business combination *(continued)*

(4) Reconciliation of net assets acquired and other gain generated

Set out below are reconciliation of of net assets acquired and other gain generated:

	As at 27 January 2016, the acquisition date RMB'000
Carry amount of investment in and loan to a joint venture	279,464
Loss arose from revaluation of investment in and loan to a joint venture (Note 28)	(3,633)
Fair value of investment in and loan to a joint venture	275,831
Cash and cash equivalents	16,789
Prepayments, deposits and other receivables	2,046
Inventory – property under development	363,876
Property, plant and equipment	213
Deferred income tax assets	17,317
Accruals and other payables	(121,109)
Total net assets acquired	279,132
Gain arose from acquisition of a subsidiary (Note 28)	3,301

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(c) Disposal of a subsidiary

On 31 October 2016, Yangzhou Huiyin and Huiyin Real Estate entered into an equity transfer agreement with Guangdong Aoyuan Commericial Property Group Company Limited (廣東奧園商業地產集團有限公司) ("Aoyuan"), a third party, pursuant to which Yangzhou Huiyin has agreed to sell and transfer and Aoyuan has agreed to purchase and receive all the equity interest held by Yangzhou Huiyin in the Huiyin Real Estate for consideration of RMB207,143,000.

(1) The aggregated assets and liabilities in respect of the disposal

The aggregated assets and liabilities in respect of the disposal are as follows:

	As at 31 October 2016, the disposal date RMB'000
Net assets disposed of	
Current assets	
Cash and cash equivalents	24,248
Inventories	381,003
Prepayments, deposits and other receivables	19,334
	424,585
Non-current assets	
Property, plant and equipment	454
Deferred income tax assets	17,410
	17,864
Total assets	442,449
Current liabilities	
Trade and bills payables,	69,657
Accruals and other payables	75,447
	145,104
Net assets	297,345
Loss on disposal of a subsidiary (Note 29)	(90,202)
Satisfied by cash	207,143

10 INVESTMENT IN AND LOAN TO A JOINT VENTURE, BUSINESS COMBINATION AND DISPOSAL OF A SUBSIDIARY *(continued)*

(c) Disposal of a subsidiary *(continued)*

(2) Reconciliation of consideration received and net inflow of cash and cash equivalents in respect of the disposal of a subsidiary

Reconciliation of consideration received of disposal of a subsidiary is as follows:

	RMB'000
Receivebles	20,000
Cash	187,143
	207,143

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash	187,143
Cash and cash equivalents disposed of	(24,248)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	162,895

11 INVESTMENT IN AN ASSOCIATE

On 29 September 2014, Yangzhou Shengshi Xinxing Electronics Sales Co., Ltd(揚州盛世欣興電器銷售有限公司) ("Yangzhou Shengshi"), an indirectly owned subsidiary of the Company, together with 2 third party companies set up Taixing Huazhang Shengshi Huazhang Electronics Sales Co., Ltd. (泰興市盛世華章電器銷售有限公司) ("Huazhang") in Taixin, Jiangsu Province.

Huazhang has a registered capital of RMB5,000,000 among which Yangzhou Shengshi contributed RMB750,000 in cash. The principal activity of Huazhang is trading of household appliances.

Nature of investment in an associate as at 31 December 2016

Name of entity	Place and date incorporation	% of ownership interest	Nature of the relationship	Measurement method
Taixing Shengshi Huazhang Electronics Sales Co., Ltd.	Taixin Jiangsu, PRC	15	Note (i)	Equity

Note:

(i) Huazhang is mainly engaged in sales of air-conditioners in Taixing. Yangzhou Shengshi is the main supplier of Huazhang.

As at 31 December 2016, the carrying amount of the Group's interest in Huazhang was RMB934,000 (31 December 2015: RMB1,180,811). Huazhang is aprivate company and there is no quoted market price available for its equity interests. There is no contingent liabilities relating to the Group's interest in the associate.

Summarised financial information for associate

Set out below are the summarised financial information for Huazhang which is accounted for using the equity method.

(a) Summarised balance sheet

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Current		
Cash and cash equivalents	998	158
Inventories	3,562	5,545
Other current assets	2,179	2,290
Total current assets	6,739	7,993
Liabilities	(306)	(960)
Non-current		
Assets	30	32
Net assets	6,463	7,065

11 INVESTMENT IN AN ASSOCIATE *(continued)*

Summarised financial information for associate *(continued)*

(b) Summarised statement of comprehensive income

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Revenue	1,899	42,142
Cost of sales	(2,204)	(38,240)
Selling expenses	(230)	(950)
Administrative expenses	(42)	(717)
Finance income	3	294
Finance costs	(33)	(23)
(Loss)/profit before income tax	(607)	2,506
Income tax credit/(expense)	5	(6)
(Loss)/profit for the year	(602)	2,500
Other comprehensive income or loss	—	—
Total comprehensive (loss)/income for the year	(602)	2,500
Dividends received or receivable from associate	—	–

The information above reflects the amounts presented in the financial statements of the associate, and not the Group's share of those amounts.

11 INVESTMENT IN AN ASSOCIATE *(continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in the associate:

Summarised financial information	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Opening net assets	7,065	4,565
(Loss)/profit for the year	(602)	2,500
Closing net assets	6,463	7,065
Group's interest in the associate(15%)	969	1,060
Unrealised (loss)/profit elimination	(35)	121
Carrying value	934	1,181

12 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The Group does not have deferred income tax assets and liabilities that are offset against each other and accordingly they are all stated at gross amounts. As at the balance sheet date, the analysis of deferred income tax assets and liabilities are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	6,096	7,437
– to be recovered after more than 12 months	5,390	162,351
	11,486	169,788
Deferred income tax liabilities:		
– to be settled within 12 months	211	211
– to be settled after more than 12 months	—	—
	211	211

12 DEFERRED INCOME TAX *(continued)*

The movement on the deferred income tax account is as follows:

	Year ended 31 December 2016 RMB'000	2015 RMB'000
At beginning of the year	169,577	134,713
Recognised in the consolidated income statement (Note 33)	(158,209)	34,864
Acquisition of a subsidiary (Note 10)	17,317	—
Disposal of a subsidiary (Note 10)	(17,410)	—
At end of the year	11,275	169,577

The movement in deferred income tax assets and liabilities during the year is as follows:

	Tax losses RMB'000	Accrued volume discounts to distributors RMB'000	Accrued expenses RMB'000	Unrealised profits elimination RMB'000	Provisions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	12,357	1,949	190	3,353	116,188	887	134,924
Recognised in the consolidated income statement	18,814	642	937	366	14,992	(887)	34,864
At 31 December 2015	31,171	2,591	1,127	3,719	131,180	—	169,788
At 1 January 2016	31,171	2,591	1,127	3,719	131,180	—	169,788
Acqusition of a subsidiary	17,317	—	—	—	—	—	17,317
Disposal of a subsidiary	(17,410)	—	—	—	—	—	(17,410)
Others	(31,171)	(2,591)	(1,127)	(3,719)	(131,180)		(169,788)
Recognised in the consolidated income statement	5,483	—	3,196	2,862	38	—	11,579
At 31 December 2016	5,390	—	3,196	2,862	38	—	11,486

12 DEFERRED INCOME TAX *(continued)*

	Withholding tax on unremitted earnings of PRC subsidiaries RMB'000
At 1 January 2015, 31 December 2015 and 31 December 2016	211

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2016, the Group did not recognise deferred income tax assets of RMB277,018,000 (31 December 2015: RMB138,247,000) in respect of losses amounting to RMB1,108,072,000 (31 December 2015: RMB552,988,000) that can be carried forward to set off against future taxable income due to uncertainty in realisation. Losses amounting to RMB27,146,000, RMB124,854,000, RMB175,348,000, RMB350,324,000, and RMB430,907,000 (31 December 2015: RMB16,674,000, RMB93,634,000, RMB167,612,000, RMB275,068,000 and nil) expire in 2017, 2018, 2019, 2020 and 2021 respectively.

13 INVENTORIES

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Merchandise held for resale	230,540	302,418
Provision for obsolescence	(2,123)	(8,653)
	228,417	293,765
Low value consumables	130	113
Total	228,547	293,878

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Included in cost of sales		
– Carrying amount of merchandise sold	1,325,264	1,920,159
– (Reversal)/accrual of provision for obsolete inventories (Note 29)	(6,530)	2,273
	1,318,734	1,922,432

As at 31 December 2016, merchandise held for sale of RMB15,000,000 (2015: RMB45,000,000) had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 (31 December 2015: RMB45,000,000) (Note 22).

14 TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

14 TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2016, trade receivables of RMB3,253,000(31 December 2015: RMB6,778,000) were past due, impaired and provided for. The aging analysis of these trade receivables is as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
less than 1 year	—	30
1 year — 2 years	56	2,378
2 years — 3 years	2,351	2,802
Over 3 years	846	1,294
Total	3,253	6,778

As at 31 December 2016, trade receivables of RMB1,657,000 (2015: RMB6,196,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

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

14 TRADE AND BILLS RECEIVABLES *(continued)*

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
At beginning of the year	6,778	4,376
(Reversal)/accrual of provision for receivable impairment (Note 29)	(3,525)	2,402
At end of the year	3,253	6,778

Bills receivable do not contain impaired assets.

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

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

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Prepayments to suppliers, net of provision	318,810	453,915
Rebate receivables from suppliers, net of provision	97,403	401,411
Prepaid rentals	15,678	16,319
Deposits	6,101	4,482
Other prepayments	93	856
Other receivables from third parties, net of provision		
— Value added tax recoverable	27,376	41,469
— Amount due from a third party for disposal of subsidiary	20,000	—
— Receivable from a third party (a)	—	2,910
— Interests receivable from banks	2,246	3,730
— Amount paid on behalf of a supplier	2,825	164
— Staff advances	1,752	774
— Others (b)	7,472	8,419
	499,756	934,449

Notes:

(a) In June 2013, the Group's wholly owned PRC subsidiary Yangzhou Huiyin entered into an agreement to lend RMB2,910,000 to a third party for a period of 2 years. Interest is charged at 8% per annum. As at 31 December 2016, the receivable is overdue over one year and full provision is accrued by the Group.

(b) As at 31 December 2015, receivables of RMB5,615,000 paid on behalf of certain suppliers are overdue and full provision is accrued by the Group.

During the year, a provision of RMB40,743,000 (2015: nil) (Note 29) for impairment of prepayments to supplier had been recognised as that certain supplier has not fulfilled the Group's orders for merchandise. As at 31 December 2016, the balance of provision for prepayments to suppliers was RMB40,743,000 (31 December 2015: nil).

During the year, a provision of RMB269,929,000 (2015: RMB198,225,000) (Note 29) for impairment of rebate receivables from supplier had been recognised, taking into account of the quality and financial position of the suppliers. As at 31 December 2016, the balance of provision for rebate receivables from suppliers was RMB922,146,000 (31 December 2015: RMB652,217,000).

The prepayments, deposits and other receivables of the Group are mainly denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

16 RESTRICTED BANK DEPOSITS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Restricted bank deposits	646,712	603,040

As at 31 December 2016, restricted bank deposits of RMB529,999,000 (31 December 2015: RMB466,805,000) had been pledged as collateral for the Group's bank acceptance bills of RMB728,710,000 (31 December 2015: RMB755,195,000) (Note 20).

As at 31 December 2016, restricted bank deposits of RMB55,963,000 (31 December 2015: RMB55,275,000) had been pledged as collateral for the Group's bank borrowings of US$7,600,000, equivalent to RMB52,721,000 (31 December 2015: US$18,900,000, equivalent to RMB122,729,000) (Note 21).

As at 31 December 2016, restricted bank deposits of RMB60,750,000 (31 December 2015: RMB60,960,000) had been pledged as collateral for the Group's interest bearing advances from third parties of RMB66,200,000 (31 December 2015: RMB68,200,000) (Note 21).

As at 31 December 2015, restricted bank deposits of RMB20,000,000 together with certain land use rights (Note 6) and buildings (Note 7) had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 (Note 22) as well as the Group's bank acceptance bills of RMB40,000,000 (Note 20).

All restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair value as at the balance sheet date. As at 31 December 2016, the weighted average interest rate per annum on restricted bank deposits was 2.2% (31 December 2015: 3.1%).

17 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Cash on hand		
– denominated in RMB	763	285
Cash at bank		
– denominated in RMB	156,676	59,954
– denominated in HK$	420	546
– denominated in US$	1,259	10,715
	158,355	71,215
	159,118	71,500

17 CASH AND CASH EQUIVALENTS *(continued)*

As at the balance sheet date, the effective interest rate per annum was as follows:

	As at 31 December	
	2016	2015
RMB	0.35%	0.35%
HK$	0.001%	0.001%
US$	0.001%	0.001%

18 SHARE CAPITAL

Details of the share capital of the Company are as follows:

	Par value	Number of ordinary shares	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2015, 31 December 2015 and 31 December 2016	US$0.001	2,000,000,000	2,000,000	10,598
Issued and fully paid:				
At 1 January 2015	US$0.001	1,155,394,017	1,155,394	7,819
Issue of new shares (b)	US$0.001	301,466,000	301,466	1,889
At 31 December 2015	US$0.001	1,456,860,017	1,456,860	9,708
Issued and fully paid:				
At 1 January 2016	US$0.001	1,456,860,017	1,456,860	9,708
Issue of new shares (a)	US$0.001	262,000,000	262,000	1,754
At 31 December 2016	US$0.001	1,718,860,017	1,718,860	11,462

Notes:

(a) On 30 June 2016, an aggregate of 262,000,000 ordinary shares of the Company had been successfully issued at the price of HK$0.80 per share. The gross proceeds amounted to approximately HK$209,600,000 (equivalent to RMB180,885,000).

(b) On 5 June 2015, an aggregate of 102,616,000 ordinary shares of the Company had been successfully issued at the price of HK$1.77 per share. The net proceeds amounted to approximately HK$177,984,000 (equivalent to RMB140,465,000).

On 17 July 2015, an aggregate of 35,000,000 ordinary shares of the Company had been successfully issued at the price of HK$1.77 per share. The net proceeds amounted to approximately HK$61,950,000 (equivalent to RMB48,910,000).

On 20 August 2015, an aggregate of 163,850,000 ordinary shares of the Company had been successfully issued at the price of HK$1.00 per share. The net proceeds amounted to approximately HK$156,300,000 (equivalent to RMB128,854,000).

18 SHARE CAPITAL *(continued)*

Notes: *(continued)*

(c) Option scheme

(i) Pre-IPO Option Scheme

The Group approved and launched the Pre-IPO Option Scheme on 5 March 2010. Pursuant to the Pre-IPO Option Scheme, the five executive directors ("key management") and two senior management members were granted the Pre-IPO Options to subscribe for up to 50,000,000 shares of the Company. The Pre-IPO Options will vest in three instalments at each of the first three anniversaries of the Listing date and will only become exercisable from the respective vesting dates up to the fifth anniversary of the Listing date. The subscription price payable upon the exercise of any Pre-IPO Options is fixed at 90% of the final offer price per share for the Listing.

The fair value of the options granted determined using the black-scholes model was HK$35,803,333. The options have been divided into three batches according to different vesting periods.

The significant inputs to the model are summarised as below:

	First vesting	Second vesting	Third vesting
Stock price (HK$)	1.69	1.69	1.69
Exercise price (HK$)	1.52	1.52	1.52
Expected holding period	3.06	3.56	4.06
Risk-free rate	1.10%	1.29%	1.47%
Volatility	58.82%	57.00%	55.70%
Expected dividend yield	1.17%	1.17%	1.17%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices for a period same as the options expected term of similar listed companies.

As at 31 December 2016, none of the 50,000,000 options was exercised by the key management or senior management members, and these options with an excese price of HKD 1.52 per share expired on 24 March 2015.

(ii) Share Option Scheme on 14 May 2015

The Group approved and launched the share option scheme on 14 May 2015. Pursuant to the share option scheme, the nine directors, an associate of a director and certain management members were granted the Share Options to subscribe for up to 100,000,000 share options of the Company. 50,000,000 share options shall vest on 14 August 2015, whilst the remaining ones shall vest on 14 May 2016. The exercise price is HK$1.69 per share.

The fair value of the share options granted determined using the binomial tree model was HK$73,041,950. The options have been divided into two parts according to different employees level.

The significant inputs to the model are summarised as below:

	Nine directors and an associate of a director	Management members
Fair market value per share as at valuation date (HK$)	1.69	1.69
Exercise price (HK$)	1.69	1.69
Exercise multiple	2.8	2.2
Risk-free rate	1.199%	1.199%
Volatility	61.95%	61.95%
Expected dividend yield	0.00%	0.00%
Post-vesting forfeiture rate	0%	20%

During the year ended 31 December 2016, no share option was granted or forfeited (2015: 100,000,000 share options were granted and 8,000,000 shares were forfeited). As at 31 December 2016, 92,000,000 share options were outstanding and exercisable. (31 December 2015: 92,000,000 share options were outstanding and 46,000,000 share options were exercisable). These share options will expire on 13 May 2020.

18 SHARE CAPITAL *(continued)*

Notes: *(continued)*

(c) Option Scheme *(continued)*

(iii) Share Option Scheme on 22 December 2015

The Group approved and launched the share option scheme on 22 December 2015. Pursuant to the share option scheme, certain ordinary employees were granted the share options to subscribe for up to 145,680,000 shares of the Company and no director, associate of a director or key management member was granted these share options. All shares shall vest on 22 June 2016. The exercise price is HK$0.95 per share.

The fair value of the share options granted determined using the binomial tree model was HK$59,728,800. The share options have been divided into two parts according to different employees level.

The significant inputs to the model are summarised as below:

	Ordinary employees
Fair market value per share as at valuation date (HK$)	0.41
Exercise price (HK$)	0.95
Exercise multiple	2.2
Risk-free rate	1.46%
Volatility	67%
Expected dividend yield	0.00%
Post-vesting forfeiture rate	20%

During the year ended 31 December 2016, no share option was granted and 6,000,000 share options were forfeited (2015: 145,680,000 share options were granted and none was forfeited). As at 31 Decmeber 2016, 139,680,000 share options were outsdanding and exercisable (31 December 2015: 145,680,000 share options were outstanding and none were exercisable). These options will expire on 21 December 2025.

19 RESERVES

	Share premium RMB'000 a	Statutory reserves RMB'000 b	Other reserves RMB'000	Accumulated loss RMB'000	Total RMB'000
Balance at 1 January 2015	884,938	28,007	(57,432)	(61,655)	793,858
Loss for the year 2015	—	—	—	(398,598)	(398,598)
Issue of ordinary shares (Note 18)	316,340	—	—	—	316,340
Issuance of share option scheme (Note 18)	—	—	43,158	—	43,158
Balance at 31 December 2015	1,201,278	28,007	(14,274)	(460,253)	754,758
Loss for the year 2016	—	—	—	(722,752)	(722,752)
Issue of ordinary shares (Note 18)	179,131	—	—	—	179,131
Capital contribution from non-controlling interests	—	—	52,440	(5,557)	46,883
Issuance of share option scheme (Note 18)	—	—	44,832	—	44,832
Balance at 31 December 2016	1,380,409	28,007	82,998	(1,188,562)	302,852

Notes:

(a) Share premium

Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.

(b) Statutory reserves

Statutory reserves represent reserves of the PRC incorporated companies which are set aside for future development purpose in accordance with the regulations in the PRC. The allocation is based on certain percentages of these companies' profit for the year, as reported in their statutory financial statements.

20 TRADE AND BILLS PAYABLES

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

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

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

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

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

As at 31 December 2016, restricted bank deposits of RMB529,999,000 (2015: RMB466,805,000) (Note 16) had been pledged as collateral for the Group's bank acceptance bills of RMB728,710,000 (2015: RMB755,195,000).

As at 31 December 2015, restricted bank deposits of RMB20,000,000 (Note 16) together with certain land use rights (Note 6) and buildings (Note 7) with a net book amount of RMB25,192,000 and RMB30,781,000 separately had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 (Note 22) as well as the Group's bank acceptance bills of RMB40,000,000.

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

21 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Advances from customers	76,251	143,784
Salary and welfare payables	30,300	23,650
Guarantee deposit for subscription of ordinary shares of the Company due to a third party	80,258	—
Accrued expenses	22,727	9,380
Interest payables	1,211	798
Payables for purchase of equipment	9,896	146
Value added tax and other tax payables	323	1,742
Accrued volume discounts to distributors	—	10,363
Advance from a third party, interest free	23,000	33,000
Advance from third parties, interest bearing (note)	66,200	68,200
Deposits	2,399	2,828
Payable to Weiying	6,800	—
Others	6,682	7,284
Total	326,047	301,175

Note:

As at 31 December 2016, the Group has an interest bearing advance from a third party of RMB58,700,000 (31 December 2015: RMB58,600,000) and restricted bank deposits of RMB60,000,000 (31 December 2015: RMB60,000,000) (Note 18) had been pledged as collateral for such advance.

As at 31 December 2016, the Group has interest bearing advances from third parties customers of RMB7,500,000 (31 December 2015: RMB9,600,000) under certain facilities agreements guaranteed by the Group (Note 41), and restricted bank deposits of RMB750,000 (31 December 2015: RMB960,000) had been pledged as collateral for such advance.

The accruals and other payables of the Group are mainly denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

22 BORROWINGS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Non-current		
Bonds payables (b)	7,358	6,722
Current		
Bank borrowings (a)	305,084	464,729
Convertible bonds (c)	—	67,611
	305,084	532,340
	312,442	539,062

22 BORROWINGS *(continued)*

(a) Bank borrowings

As at 31 December 2016, the Group's bank borrowings were repayable as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Within 1 year	305,084	464,729

As at 31 December 2016, land use rights (Note 6), buildings (Note 7) and investment properties (Note 8) with a total net book amount of RMB165,278,000 (31 December 2015: RMB227,104,000) had been pledged as collateral for the Group's bank borrowings of RMB97,600,000 (31 December 2015: RMB117,000,000).

As at 31 December 2016, restricted bank deposits of RMB55,963,000 (31 December 2015: RMB55,275,000) (Note 16) had been pledged as collateral for the Group's bank borrowings of US$7,600,000, equivalent to RMB52,721,000 (31 December 2015: US$18,900,000 equivalent to RMB122,729,000).

As at 31 December 2016, bank borrowings amounting to RMB9,763,000 were guaranted by a third party.

As at 31 December 2016, bank borrowing amounting to RMB100,000,000 were guaranted by Jiangsu Ruihua Investment Holdings Group Limited, the ultimate holding company of a minority interest holder of a subsidiary of the Company.

As at 31 December 2016, merchandise held for sale of RMB15,000,000 (31 December 2015: RMB45,000,000) (Note 13) had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 (31 December 2015: RMB45,000,000).

As at 31 December 2016, bank borrowings amounting to RMB30,000,000 (31 December 2015: RMB80,000,000) were unsecured.

As at 31 December 2015, land use rights of a land parcel owned by a joint venture (Note 10) with a net book amount of RMB244,558,000 (Note 10) had been pledged as collateral for the Group's bank borrowings of RMB100,000,000.

22 BORROWINGS *(continued)*

(a) Bank borrowings *(continued)*

The exposure of the Group's bank borrowings to interest rate change and the contractual repricing dates at the end of the reporting period are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
6 months or less	67,263	205,910
6-12 months	237,821	258,819
	305,084	464,729

The carrying amount of non-current bank borrowings and current bank borrowings approximates their fair value at the balance sheet date.

The carrying amounts of the Group's bank borrowings as at the balance sheet dates are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Current		
– RMB	252,363	342,000
– US dollar	52,721	122,729
	305,084	464,729

As at 31 December 2016, the Group's bank borrowings with the carrying amounts of RMB52,721,000 (31 December 2015: RMB122,729,000) are of floating rates and bank borrowings with the carrying amounts of RMB252,363,000 (31 December 2015: RMB342,000,000) are of fixed rates.

The weighted average effective interest rate of the Group's bank borrowings as at the balance sheet dates are as follows:

	As at 31 December	
	2016	2015
Current	4.48%	4.15%

22 BORROWINGS *(continued)*

(b) Bonds payables

On 22 January 2015, the Company entered into a bonds placing agreement with the placing agent pursuant to which the placing agent has agreed to endeavour to procure investors who are not and whose ultimate beneficial owner(s), if applicable, are not connected persons of the Company on a best effort basis to subscribe for the bonds in an aggregate principal amount of up to HK$300,000,000. The bonds will be placed in denomination of HK$2,500,000, at the interest rate of 6.0% per annum, and with a term of eight years.

As at 31 December 2016, bonds issued at their nominal value of HK$10,000,000 (equivalent to RMB7,358,000) (31 December 2015: HK$10,000,000,equivalent to RMB8,378,000) were outstanding and repayable more than 3 years.

(c) Convertible bonds

On 14 August 2015, the Group issued convertible bonds of HK$80,000,000 (equivalent to RMB65,984,000) at the interest rate of 4.0% per annum. The bonds mature one year from issue date at their nominal value of HK$80,000,000 or can be converted into shares at the holder's option at the maturity date at the rate of one share per HK$1.19. The number of shares to be issued does not vary with changes in their fair value, but the the amount of cash to be exchanged is not fixed. The Group designated the instrument as financial liabilities at fair value through profit or loss as a whole.

The convertible bonds recognised in the balance sheet is calculated as follows:

	RMB'000
Face value of convertible bonds issued as at the issurance date	65,984
Fair value losses (Note 32)	1,627
Fair value as at 31 December 2015	67,611
Fair value as at 1 January 2016	67,611
Effect of change in exchange rate	1,938
Fair value gain recognised in profit or loss (Note 32)	(605)
Redeemed as at the redemption date	68,944
As at 31 December 2016	—

22 BORROWINGS *(continued)*

(c) Convertible bonds *(continued)*

On 14 July 2016, the Group has early redeemed all of the outstanding convertible bond at the aggregate amount of the outstanding principal of HK$80,000,000 in accordance with the terms of the Convertible Bond.

As at 31 December 2015, the fair value of the convertible bonds determined using the binomial tree model was HK$ 80,702,000 (equivalent to RMB67,611,000).

The significant inputs to the model are summarised as below:

	As at 31 December 2015	As at Issue Date
Fair value of underlying shares (HK$)	0.97	1.15
Convertion price of underlying shares (HK$)	1.19	1.19
Time to maturity (Year)	0.62	1
Risk-free rate	0.110%	0.075%
Risky discount rate	8.50%	8.50%
Dividend yield	0.00%	0.00%
Volatility	91.50%	60.00%

(d) Medium-term notes

On 20 August 2012, the Group's wholly owned PRC subsidiary Yangzhou Huiyin issued medium-term notes in the PRC in the aggregate principal amount of RMB390,000,000, at an interest rate of 6.3% per annum, and with a term of three years. The medium-term notes are listed and transferable in the inter-bank debenture market in the PRC. On 20 August 2015, the Group's medium-term notes were fully repaid.

23 DEFERRED GOVERNMENT GRANTS

Deferred government grants comprise government subsidy of RMB2,910,000 granted by the Management Committee of Jiangsu Yangzhou Hanjiang Economics Development Zone in respect of the Group's storage and logistic development project. Such deferred government grants are asset related and amortised on a straight-line basis over useful life of a storage and logistic facility of 50 years.

24 CONTINGENT CONSIDERATION LIABILITIES

	Contingent consideration liabilities arising from business combination
	RMB'000
As at 31 December 2016 and 2015	53,560

On 20 September 2010, Yangzhou Huiyin a subsidiary of the Group, entered into a co-operation agreement with Huainan Xingfushu Electrical Appliances Company Limited ("Xingfushu") and an independent third party Mr. Jin, who was the 90% owner of Xingfushu, for the formation and operation of a new entity Huainan Four Seas, and acquisition of business by Huainan Four Seas from Xingfushu comprising inventories, sales network and leases of shops. Huainan Four Seas started business on 1 November 2010, meanwhile Xingfushu ceased its business.

The contingent consideration arrangement requires Yangzhou Huiyin to pay Mr. Jin a consideration, amounting to the net operating profit after taxation ("the Net Operating Profit") for the first year after its commencement of business (the "First Operating Year") (subject to a maximum amount of RMB14 million) times 6.5 minus RMB19.5 million (the "Consideration"), if the Net Operating Profit of the Huainan Four Seas for the First Operating Year exceeds RMB5 million; meanwhile if the Net Operating Profit for the third year after the commencement of business of the Huainan Four Seas exceeds RMB13 million and the aggregate Net Operating Profits for the first three years after the commencement of business of the Huainan Four Seas exceeds RMB30 million, Yangzhou Huiyin shall pay Mr. Jin a bonus consideration of RMB12 million (the "Bonus Consideration"). Accordingly, the maximum amount of the contingent consideration payable to Mr. Jin is RMB83.5 million. The Consideration and the Bonus Consideration will be paid in cash or, if required by Mr. Jin, by way of issue and allotment of new ordinary shares of the Company (the "Shares"), to Mr. Jin. The number of new Shares to be issued will be based on the average closing price of the Shares for three months immediately preceding the date of the issue and allotment of such Shares.

During the year ended 31 December 2016, no fair value changes (2015: Nil) were recognised in the consolidated income statement for the contingent consideration arrangement. As at 31 December 2016, the fair value of the contingent consideration liabilities of RMB53,560,000 (2015: RMB53,560,000) was estimated by applying the income approach. Further information on such level 3 financial liabilities is set out in Note 3.3.

The contingent consideration liabilities arising from Bonus Consideration is subject to the final adjustment, which depends on the outcome of commercial negotiation with Mr. Jin.

25 PARTICULARS OF SUBSIDIARIES

As at 31 December 2016, the Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest hold As at 31 December 2016	2015	Principal activities	Note
Directly owned							
China Yinrui HK (Note 1)	Hong Kong 14 March 2008	Limited liability company	HK$1	100%	100%	Investment	
Fuhua	BVI 28 August 2004	Limited liability company	US$1	100%	100%	Investment	(i)
Indirectly owned							
Yangzhou Huiyin (Note 1) 揚州滙銀科技集團有限公司 (formerly known as "揚州滙銀家電(集团)有限公司")	Yangzhou Jiangsu, PRC 27 May 2002	Foreign investment enterprise	US$200,000,000 and US$196,427,968.34	100%	100%	Bulk distribution sales of household appliances	(iv)
Jiangsu Huiyin Lehu Commercial Chain-Stores Co., Ltd. (formerly known as "Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.") 江蘇匯銀樂虎商業連鎖有限公司 (formerly known as "江蘇滙銀電器連鎖有限公司")	Yangzhou Jiangsu, PRC 15 May 2006	Domestic enterprise	RMB62,500,000	100%	100%	Retail sales and provision of after-sales services of household appliances	(iv)
Changzhou Keyi Air-Conditioner Sales Co., Ltd. ("Changzhou Keyi") 常州可意空調銷售有限公司	Changzhou Jiangsu, PRC 26 August 2003	Domestic enterprise	RMB5,000,000	90%	90%	Bulk distribution sales of Gree air-conditioners	
Yangzhou Huihou Electronics Sales Co., Ltd. 揚州滙厚電器銷售有限公司	Yangzhou Jiangsu, PRC 23 August 2004	Domestic enterprise	RMB5,000,000	100%	100%	Bulk distribution sales of household appliances	
Yangzhou Hengjin Air-conditioner Sales Co., Ltd. 揚州恒金空調銷售有限公司	Yangzhou Jiangsu, PRC 27 August 2004	Domestic enterprise	RMB50,000,000	100%	100%	Bulk distribution sales of Daikin air conditioners	
Yangzhou Huide Electronics Distribution Co., Ltd. 揚州滙德電器營銷有限公司	Yangzhou Jiangsu, PRC 23 October 2006	Domestic enterprise	RMB50,000,000	100%	100%	Bulk distribution sales of Midea air-conditioners	

25 PARTICULARS OF SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest hold As at 31 December 2016	2015	Principal activities	Note
Indirectly owned (continued)							
Yangzhou Huiyin Logistic Co., Ltd 揚州滙銀物流有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	US$5,000,000	100%	100%	Bulk distribution sales of household appliance	
Yangzhou Huiyin Household Appliances Sales Co., Ltd. 揚州滙銀電器銷售有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreigninvestment enterprise	US$4,100,000	100%	100%	Retail sales of household appliances	
Anhui Four Seas (Note 4(b)) 安徽四海匯銀家電銷售有限公司	Huainan Anhui,PRC 16 September 2010	Domestic enterprise	RMB50,000,000	65%	65%	Bulk distribution and retail sales of household appliances	(i)
Wuxi Huiyin Household Appliances Sales Co., Ltd. 無錫匯銀家電銷售有限公司	Wuxi Jiangsu, PRC 9 December 2010	Domestic enterprise	RMB1,800,000	100%	100%	Bulk distribution sales of household appliances	
Nanjing Chaoming (Note 4(b)) 南京潮明科技發展有限公司	Nanjing Jiangsu, PRC 20 June 2002	Domestic enterprise	RMB10,000,000	100%	100%	Bulk distribution sales of wine	(i)
Jiangsu Huiyin Electronics (Anhui) Co., Ltd. 江蘇匯銀電器(安徽)有限公司	Hefei Anhui, PRC 31 March 2011	Domestic enterprise	RMB2,000,000	100%	100%	Retail and bulk distribution sales of household appliances	
Hefei Jingmei Household Appliances Co., Ltd. 合肥精美家電有限公司	Hefei Anhui, PRC 25 May 2011	Domestic enterprise	RMB1,000,000	100%	100%	Bulkdistribution sales of household appliances	
Xuancheng Xinxing Electronics Sales Co., Ltd. 宣城欣興電器銷售有限公司	Xuancheng Anhui, PRC 18 August 2011	Domestic enterprise	RMB20,000,000	100%	100%	Bulk distribution sales of household appliances	(iii)
Jiangsu Huiyin Electronic Commerce Co., Ltd. 江蘇匯銀電子商務有限公司	Yangzhou Jiangsu, PRC 13 June 2012	Domestic enterprise	RMB15,600,000 and RMB11,733,333	90%	100%	Online sales of household appliances and import merchandise	(ii)
Shanghai Jingjiandongkang Trading Co., Ltd. 上海靜健動康貿易有限公司	Shanghai, PRC 24 October 2012	Domestic enterprise	RMB2,000,000	100%	100%	Trading of food and other merchandise	
Yangzhou Shengshi Xinxing Electronics Sales Co., Ltd. 揚州盛世欣興電器銷售有限公司	Yangzhou, PRC 21 August 2013	Domestic enterprise	RMB10,000,000	100%	100%	Bulkdistribution sales of household appliances	
Shanghai Guanghan Trading Co.,Ltd. 上海廣邗貿易有限公司	Shanghai, PRC 12 February 2014	Foreign Investment Enterprise	RMB500,000	100%	100%	Bulk distribution sales of general merchandise	
Jiangsu Jingjian Dongkang Trading Co.,Ltd. 江蘇靜健動康貿易有限公司	Yangzhou,PRC 11 March, 2014	Domestic Enterprise	RMB10,000,000 and RMB360,000	100%	100%	Bulk distribution sales of food	
Jiangsu Huiyin Lottery Network Technology Co.,Ltd. 江蘇匯銀彩票網路科技有限公司	Yangzhou, PRC 17 June 2014	Domestic Enterprise	RMB60,000,000 and RMB3,300,000	100%	100%	Lottery sales and development of lottery sale system	(iii)

25 PARTICULARS OF SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest hold As at 31 December 2016	2015	Principal activities	Note
Indirectly owned (continued)							
Shanghai Huicai Financial Information Service Co.,Ltd. 上海匯彩互聯網金融信息服務有限公司	Shanghai, PRC 22 August 2014	Domestic Enterprise	RMB3,000,000 and nil	100%	100%	Internet Financial information service	
Jiangsu Kuanrui Trade Logistics Development Co.,Ltd. 江蘇寬瑞物流貿易發展有限公司	Yangzhou, PRC 30 January 2008	Foreign Investment Enterprise	EUR2,000,000	100%	100%	Logistic and warehouse services	(i)
Yangzhou Yinlinghui Recreation Center for Aged 揚州銀齡匯老年服務中心	Yangzhou PRC 27 April 2015	Domestic Enterprise	RMB100,000	100%	100%	Community Services	
Nanjing Lehu Electronic Commerce Co., Ltd 南京匯銀樂虎電子商務有限公司	Nanjing PRC 01 October 2015	Domestic Enterprise	RMB30,000,000	100%	100%	Retail sales of import merchandise	(ii)
Ningbo Bonded area Lehu Electronic Commerce Co., Ltd 寧波保税區樂虎電子商務有限公司	Ningbo PRC 30 October 2015	Domestic Enterprise	RMB10,000,000 and nil	100%	100%	Retail sales of import merchandise	
Nanjing Activity Center for Aged 南京老年活動中心	Nanjing PRC 1 February 2016	Domestic Enterprise	RMB50,000	100%	–	Community Services	
Nantong Lehu Electronic Commerce Co., Ltd 南通樂虎電子商務有限公司	Nantong PRC 30 March 2016	Domestic Enterprise	RMB10,000,000	100%	–	Retail sales of import merchandise	
Yangzhou Huiyin Lehu Electronic Commerce Co., Ltd 揚州匯銀樂虎電子商務有限公司	Yangzhou PRC 22 June 2016	Domestic Enterprise	RMB10,000,000 and RMB6,000,000	100%	–	Retail sales of import merchandise	
Nanjing Huiyin Lehu Cold-Chain Logistics Co., Ltd 南京匯銀樂虎冷鏈物流有限公司	Nanjing PRC 10 April 2016	Domestic Enterprise	RMB10,000,000 and RMB1,000	100%	–	Logistic and Warehouse Service	
Nanjing Huiyin Information and Technology Development Co., Ltd 南京匯銀信息科技發展有限公司	Nanjing PRC 7 April 2016	Domestic Enterprise	RMB10,000,000 and RMB1,000	100%	–	Information technology development and consulting services	
Nanjing Huiyin Lehu Enterprise Management Co., Ltd 南京匯銀樂虎企業管理有限公司	Nanjing PRC 10 April 2016	Domestic Enterprise	RMB10,000,000 and RMB1,000	100%	–	Business Management Advisory Service	
Nanjing Huiyin Lehu Communication & Media Co., Ltd 南京匯銀樂虎文化傳媒有限公司	Nanjing PRC 10 April 2016	Domestic Enterprise	RMB10,000,000 and RMB82,000	100%	–	Marketing Campaigns and Advertising Services	
Hefei Huiyin Lehu Electronic Commerce Co., Ltd 合肥匯銀樂虎電子商務有限公司	Hefei PRC 30 June 2016	Domestic Enterprise	RMB10,000,000 and RMB4,418,948	100%	–	Retail sales of import merchandise	

25 PARTICULARS OF SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest hold As at 31 December 2016	2015	Principal activities	Note
Indirectly owned (continued)							
Taizhou Huiyin Dadu Lehu Electronic Commerce Co., Ltd 泰州匯銀大都樂虎電子商務有限公司	Taizhou PRC 3 August 2016	Domestic Enterprise	RMB20,000,000 and RMB8,000,000	51%	–	Retail sales of import merchandise	
Yangzhou Huiyin Warehouse Management Co., Ltd 揚州匯銀倉儲管理有限公司	Yangzhou PRC 11 July 2016	Foreign Investment Enterprise	HK$78,500,000 and HK$77,570,500	100%	–	Logistic and Warehouse Service	
Changzhou Huiyin Lehu Network Technology Co., Ltd 常州匯銀樂虎網絡科技有限公司	Changzhou PRC 28 November 2016	Domestic Enterprise	RMB10,000,000 and RMB6,560,429	100%	–	Retail sales of import merchandise	
Suzhou Huiyin Lehu Electronic Commerce Co., Ltd 蘇州匯銀樂虎電子商務有限公司	Suzhou PRC 15 November 2016	Domestic Enterprise	RMB10,000,000 and RMB3,406,242	100%	–	Retail sales of import merchandise	
Shanghai Haihu Electronic Commerce Co., Ltd 上海海虎電子商務有限公司	Shanghai PRC 17 November 2016	Domestic Enterprise	RMB50,000,000 and nil	80%	–	Retail sales of import merchandise	

Notes:

(i) These companies are acquired from third parties or are set up to acquire business from non-controlling interest.

(ii) Jiangsu Huiyin Electronic Commerce Co., Ltd. (江蘇匯銀電子商務有限公司) increased its registered capital from RMB10,000,000 to RMB15,600,000 and increased its paid-up capital from RMB10,000,000 to RMB11,733,333. Nanjing Lehu Electronic Commerce Co., Ltd (南京匯銀樂虎電子商務有限公司) increased its paid-up capital from RMB6,300,000 to RMB30,000,000.

(iii) Jiangsu Huiyin Lottery Network Technology Co.,Ltd. (江蘇匯銀彩票網絡科技有限公司) and Xuancheng Xinxing Electronic Sales Co.,Ltd. (宣城欣興電器銷售有限公司) was liquidated in December 2016 and November 2016 resepectively.

(iv) On 11 January 2016, Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. (江蘇滙銀電器連鎖有限公司) changed its name to Jiangsu Huiyin Lehu Commercial Chain-Stores Co., Ltd. (江蘇匯銀樂虎商業連鎖有限公司). On 5 February 2016, Yangzhou Huiyin changed its name to Yangzhou Huiyin High Technology Group Co., Ltd. (揚州匯銀科技集團有限公司).

(v) The English names of certain subsidiaries represent the best effort of the Company in translating their Chinese names as they do not have official English names.

26 REVENUE

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

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

27 OTHER INCOME

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Income from suppliers on promotion activities	10,993	7,850
Rental income	3,685	—
Membership fee income	2,807	9,538
Government subsidies (note)	2,736	5,382
	20,221	22,770

Note:

All of the government subsidies for the years ended 31 December 2016 and 2015 represent amounts received during the respective years and are not subject to any conditions nor intended to compensate future costs.

28 OTHER LOSSES — NET

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
(Losses)/gainson disposal of property, plant and equipment, net	(142)	102
Impairment loss against goodwill	—	(34,060)
Gain arose from acquisition of a subsidiary (Note 10)	3,301	—
Losses arose from revaluation of investment in and loan to a Joint Venture	(3,633)	—
Loss on disposal of a subsidiary (Note 10)	(90,202)	—
	(90,676)	(33,958)

29 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing and administrative expenses were analysed as following:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost of merchandise before deducting supplier rebates	1,548,848	2,442,859
Supplier rebates	(223,584)	(513,240)
Taxes and levies on main operations	2,615	3,394
Employee benefit expenses (excluding Share Option Scheme expenses) (Note 30)	88,999	80,228
Share option scheme expenses (Note 19)	44,832	43,158
Service charges	7,483	2,384
Operating lease expenses in respect of buildings and warehouses	40,944	50,654
Promotion and advertising expenses	57,730	31,124
Amortisation of land use rights (Note 6)	1,108	1,184
Depreciation of property, plant and equipment (Note 7)	23,425	23,898
Depreciation of investment properties (Note 8)	170	170
Amortisation of intangible assets (Note 9)	1,528	1,590
Utilities and telephone expenses	10,463	8,608
Transportation expenses	15,706	14,944
Entertainment expenses	4,794	4,858
Travelling expenses	4,350	4,186
Office expenses	4,695	2,704
Accrual of provision for obsolescence of inventories (Note 13)	(6,530)	2,273
Reversal of provision for impairment of trade receivables (Note 14)	(3,525)	2,402
Provision for impairment of other receivables (Note 15)	8,525	—
Accrual of provision for impairment of prepayment to suppliers (Note 15)	40,743	—
Accrual of provision for impairment of rebate receivables from suppliers (Note 15)	269,929	198,225
Property tax and other taxes	2,384	2,582
Auditor's remuneration	3,565	2,980
Bank charges	6,946	7,063
Consulting expenses	5,104	683
Others	10,813	7,830
Total of cost of sales, selling and marketing expenses and administrative expenses	1,972,060	2,426,741

30 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Salaries and other allowances	69,612	59,823
Social security costs	18,709	19,737
Share Option Scheme expenses	44,832	43,158
Other benefits	678	668
	133,831	123,386

(a) The employees of the subsidiaries of the Group in the PRC participate in defined contribution retirement benefit plans organised by the relevant local governments. For the year ended 31 December 2016, these subsidiaries were required to make monthly defined contributions to these plans at rates ranging from 27.4% to 32.3% of their total salaries subject to certain ceilings (2015: 28.9% to 43.0%).

(b) The Group has no other obligations for the payment of retirement and other post-retirement benefits of its employees or retirees other than the defined contribution payments as disclosed in Note 31.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two (2015: three) directors, whose emoluments were reflected in the analysis presented in Note 31. The emoluments paid/payable to the remaining three (2015: two) individuals were as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Salaries and other allowances	1,011	730
Bonuses	—	—
Share Option Scheme expenses	98	532
Social security costs	63	108
	1,172	1,370

30 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(c) Five highest paid individuals *(continued)*

The emoluments of the remaining three (2015: two) highest paid individuals of the Group fall within the following bands:

	Year ended 31 December	
	2016	2015
Emoluments bands		
— Nil to HK$1,000,000	3	1
— HK$1,000,001 to HK$1,500,000	—	1
	3	2

31 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' and chief executive's emoluments

For the years ended 31 December 2016 and 2015, the remuneration of directors of the Company paid/payable by the Group were as follows:

	For the year ended 31 December 2016					
Name of directors	Salaries and other allowances RMB'000	Bonuses RMB'000	Social security costs RMB'000	Share Option Scheme expenses RMB'000	Other benefits RMB'000	Total RMB'000
Chairman and executive director						
– Mr. Cao Kuanping	1,827	–	85	63	358	2,333
Other executive directors						
– Mr. Wang Zhijin	827	–	107	506	–	1,440
– Mr. Mao Shanxin	231	–	38	63	–	332
– Mr. Mo Chihe	280	–	38	633	–	951
– Mr. Lu Chaolin	227	–	25	316	–	568
Independent non-executive directors						
– Mr. Tam Chun Chung	100	–	–	32	–	132
– Mr. Zhou Shui Wen	50	–	–	32	–	82
– Mr. Lo Kwong Shun Wilson	50	–	–	32	–	82
	3,592	–	293	1,677	358	5,920

31 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

(a) Directors' and chief executive's emoluments *(continued)*

	For the year ended 31 December 2015					
Name of directors	Salaries and other allowances RMB'000	Bonuses RMB'000	Social security costs RMB'000	Share Option Scheme expenses RMB'000	Other benefits RMB'000	Total RMB'000
Chairman and executive director						
– Mr. Cao Kuanping	1,827	–	98	532	2,200	4,657
Other executive directors						
– Mr. Wang Zhijin	827	67	112	4,257	318	5,581
– Mr. Mao Shanxin	232	39	39	532	–	842
– Mr. Mo Chihe	283	29	39	5,322	318	5,991
– Mr. Lu Chaolin	224	100	26	2,661	–	3,011
– Ms. Hu Yanyu (note)	450	20	57	–	–	527
Independent non-executive directors						
– Mr. Tam Chun Chung	100	–	–	266	–	366
– Mr. Zhou Shui Wen	50	–	–	266	–	316
– Mr. Lo Kwong Shun Wilson	50	–	–	266	–	316
	4,043	255	371	14,102	2,836	21,607

Note: Appointed on 15 October 2014 and resigned on 25 September 2015

The chief executive of the Company is Mr. Cao Kuanping, who is also one of the directors of the Company.

During the years ended 31 December 2016 and 2015, none of the directors of the Company (i) received any emolument from the Group as an inducement to join or upon joining the Group; or (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

31 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2015: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, the Group did not pay consideration to any third parties for making available directors' services (2015: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2016, there was no loans, quasi-loans and other dealing arrangements in favour of directors, controlled body corporate by and connected entities with such directors (2015: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

32 FINANCE COSTS — NET

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Finance income		
— Interest income on bank deposits	10,340	24,988
— Interest income from loan to a joint venture (Note 10)	1,467	15,792
	11,807	40,780
Finance costs		
— Interest expenses on discounting of bills receivable	(18,264)	(23,771)
— Interest expenses on bank borrowings	(21,320)	(23,365)
— Interest expenses on medium-term notes	—	(18,225)
— Interest expenses on convertible bonds	(2,546)	—
— Interest expenses on bonds payables	(718)	—
— Fair value gain/(losses) on convertible bonds (Note 22)	605	(1,627)
— Net foreign exchange losses on cash and cash equivalents and bank borrowings	(11,879)	(13,162)
	(54,122)	(80,150)
Finance costs — net	(42,315)	(39,370)

33 INCOME TAX (EXPENSE)/CREDIT

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

Note:

These current income tax liabilities and deferred tax assets are mostly related to accruals of supplier rebate income. Following the adjustment on the supplier rebates income and receivables resulting from the restructuring of the Group's business, these tax liabilities and deferred tax assets are also reversed.

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

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

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

33 INCOME TAX (EXPENSE)/CREDIT *(continued)*

(a) Hong Kong profits tax

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

(b) PRC enterprise income tax

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

34 LOSS PER SHARE

(a) Basic

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

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

34 LOSS PER SHARE *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the settlement in ordinary shares for contingent consideration arising from business combination, exercise of the conversion right of convertible bonds and Share Option Scheme assuming they were settled by issuance of ordinary shares.

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

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

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

35 DIVIDENDS

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

36 CASH USED IN OPERATIONS

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Loss before income tax	(702,160)	(437,911)
Adjustments for:		
– Net foreign exchange losses on cash and cash equivalents and bank borrowings (Note 32)	11,879	13,162
– Amortisation of land use rights (Note 6)	1,108	1,184
– Depreciation of property, plant and equipment (Note 7)	23,425	23,898
– Depreciation of investment properties (Note 8)	170	170
– Amortisation of intangible assets (Note 9)	1,528	1,590
– Impairment loss against goodwill (Note 9)	—	34,060
– Losses/(gains) on disposal of property, plant and equipment (Note 28)	142	(102)
– Finance income (Note 32)	(10,340)	(24,988)
– Interest income from loan to a joint venture (Note 32)	(1,467)	(15,792)
– Interest expenses and borrowing costs (Note 32)	42,848	65,361
– Loss on disposal of a subsidary (Note 10, Note 28)	90,202	—
– Loss arising from revaluation of a investment in and loan to a joint venture (Note 10, Note 28)	3,633	—
– Gain arising from acquisition of a subsidiary (Note 10, Note 28)	(3,301)	—
– Share of loss of investment in a joint venture (Note 10)	1,148	14,904
– Share of loss of investment in an associate (Note 11)	211	(442)
– Amortisation of deferred government grants	(58)	(58)
– Fair value losses on convertible bonds (Note 32)	(605)	1,627
– Accrual of provision for obsolescence of inventories (Note 13)	(6,530)	2,273
– Reversal of provision for impairment of trade receivables (Note 14)	(3,525)	2,402
– Provision for impairment of other receivables (Note 15)	8,525	—
– Accrual of provision for impairment of prepayment to suppliers (Note 15)	40,743	
– Accrual of provision for impairment of rebate receivables from suppliers (Note 15)	269,929	198,225
– Share option scheme expenses (Note 19)	44,832	43,158
Operating loss before working capital changes	(187,663)	(77,279)
Changes in working capital:		
– (Increase)/decrease in inventories (note)	(11,157)	117,692
– Decrease in trade and bills receivables	18,617	34,455
– Decrease/(increase) in prepayments, deposits and other receivables (note)	119,327	(9,242)
– (Increase)/decrease in restricted bank deposits pledged for bank acceptance bills	(43,194)	4,258
– Increase in trade and bills payables (note)	(7,513)	(58,490)
– Increase in accruals and other payables (note)	(5,366)	(119,638)
Cash generated/used in operations	(116,949)	(108,244)

Note:

Change in inventories, prepayments, deposits and other receivables, trade and bills payables, and accruals and other payables of year 2016 include increase from business combination of Huiyin Real Estate of RMB297,985,000, RMB2,046,000, RMB36,643,000 and RMB20,471,000; and decrease from disposal of Huiyin Real Estate of RMB381,003,000, RMB19,334,000, RMB69,657,000 and RMB75,447,000 respectively (Note10).

37 OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises, stores under non-cancellable operating lease agreements. The leases have various terms and renewal rights.

As at the balance sheet date, the Group's future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Not later than 1 year	41,333	40,812
Later than 1 year and not later than 5 years	136,366	84,300
Later than 5 years	82,797	9,333
	260,496	134,445

38 FUTURE OPERATING LEASE RENTALS RECEIVABLE

As at the balance sheet date, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Not later than 1 year	2,454	5,065
Later than 1 year and not later than 5 years	1,500	2,560
Later than 5 years	174	—
	4,128	7,625

The minimum lease receipts as set out above are mainly related to leasing of shop premises located at the Group's own stores and office building which are entered into primarily on a short-term or medium-term basis.

39 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the years presented.

Name	Relationship with the Group
Mr. Cao Kuanping	Substantial shareholder of the Company/Director
Huiyin Real Estate (Note 10)	A joint venture of the Group
Huazhang (Note 11)	An associate of the Group

(b) Transactions with related parties

Other than the transactions with Huiyin Real Estate as disclosed in Notes 10 and 32, the following transactions were undertaken by the Group with related parties during the year:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
– Sales of goods to an associate		
Huazhang	–	29,225
– Rental expenses to a related party		
Mr. Cao Kuanping	3,738	3,650
– Directors' emoluments		
Salaries, bonuses and other welfares	5,920	21,607

In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business and at terms mutually negotiated between the Group and respective related parties.

Two property leasing contracts, one for office use and the other for retail purpose, were entered into by the Group with Mr. Cao Kuanping in 2013 for a term of 3 years from 20 January 2013 to 19 January 2016. During the year, these two lease contracts are extended to 19 January 2019. The aggregate annual rents payable by the Group to Mr. Cao Kuanping under the two renewed property leasing contracts amount to RMB3,743,600.

39 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Salaries and other allowances	3,392	3,843
Bonuses	–	255
Social security costs	293	371
Share option scheme expenses	1,581	13,304
Other benefits	358	2,836
	5,624	20,609

(d) Balances with related parties

Other than the balances with Huiyin Real Estate as disclosed in Note 10, the Group had the following balances with related parties at the balance sheet date:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Balances due to related parties:		
Advances from an associate for purchases of goods		
– Huazhang	–	300
Salaries, bonuses and welfares payable to directors		
– Mr. Cao Kuanping	152	152
– Mr. Mao Shanxin	19	19
– Mr. Mo Chihe	24	24
– Mr. Wang Zhijin	69	69
– Mr. Lu Chaolin	19	19
– Ms. Hu Yanyu	–	50
	283	333
	283	333

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2016 RMB'000	2015 RMB'000
ASSETS		
Non-current assets		
Investments in and amounts due from subsidiaries	1,061,152	1,572,129
Current assets		
Prepayments, deposits and other receivables	21,363	31,819
Dividends receivable	14,055	13,164
Cash and cash equivalents	581	11,066
	35,999	56,049
Total assets	1,097,151	1,628,178
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital: nominal value	11,462	9,708
Share premium (note)	1,380,409	1,201,278
Other reserves (note)	119,475	74,643
Accumulated losses (note)	(1,174,660)	(452,281)
Total equity	336,686	833,348
LIABILITIES		
Non-current liabilities		
Borrowings	7,358	6,722
Current liabilities		
Accruals and other payables	700,385	688,679
Borrowings	52,722	99,429
	753,107	788,108
Total liabilities	760,465	794,830
Total equity and liabilities	1,097,151	1,628,178

Cao Kuanping
Director

Wang Zhijin
Director

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Note: Reserve movement of the Company

	Share premium RMB'000 Note (a)	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2015	884,938	31,485	(121,126)	795,297
Loss for the year 2015	—	—	(331,155)	(21,021)
Issue of ordinary shares	316,340	—	—	316,340
Share Option Scheme - value of employee services	—	43,158	—	43,158
Balance at 31 December 2015	1,201,278	74,643	(452,281)	823,640
Balance at 1 January 2016	1,201,278	74,643	(452,281)	823,640
Loss for the year 2016	—	—	(722,379)	(47,378)
Issue of ordinary shares	179,131	—	—	179,131
Share Option Schem - value of employee services	—	44,832	—	44,832
Balance at 31 December 2016	1,380,409	119,475	(1,174,660)	325,224

41 CONTINGENCIES

On 11 April 2014, the Group had entered into certain facilities agreements with certain third-party customers of the Group and a bank to execute guarantees in favour of the bank for the total facility of RMB20,700,000 with the expiring date of 11 April 2016. As at 31 December 2015, such facilities were all utilised by those customers, including the amount of RMB9,600,000 were lent to the Group with an expiring date within 1 year and an effective interest rate of 8.04% per annum (Note 21), the remaining of RMB11,000,000 were utilised by those customers under the facility agreements. During the year end 31 December 2016, RMB2,000,000 of the facilities was extended to 9 January 2017, RMB8,000,000 of the facilities was extended to 21 March 2017, and the remaining facilities were expired and repaid. As at 31December 2016, such facilities were all utilised by those customers, including the amount of RMB6,000,000 and RMB1,500,000 were lent to the Group with an expiring date within 1 year and an effective interest rate of 6.50% and 7% per annum respectively (Note 21), and the remaining of RMB2,500,000 were obtained by those customers under the facility agreements. As at 31December 2016, the total amounts of facilities used which the Group executed guarantees for were RMB10,000,000 (31 December 2015: RMB20,700,000). As at 31 December 2016, restricted bank deposits of RMB750,000 (31 December 2015: RMB960,000) (Note 14) had been pledged as collateral for the guarantees. No provision in relation to the guarantees has been recognised in the condensed consolidated financial statements as in the directors' opinion, it is not probable that significant liability will arise (31 December 2015: nil).

As at 31 December 2016, the Group had been defending several legal actions brought by third parties in the PRC, with the total claim amount of RMB8,300,000 (2015: RMB8,300,000). After seeking advices from PRC lawyers, the Group considered these legal claims unfounded. No provision in relation to those claims has been recognised in these consolidated financial statements as in the directors' opinion, it is not probable that significant liability will arise.

42 APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 59 to 151 were approved and authorised for issue by the board of directors of the Company on 24 March 2017.

Financial Summary

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	1,384,029	2,053,850	3,093,022	2,849,142	2,457,541
Profit/(loss) attributable to equity holders of the Company	(722,752)	(398,598)	50,004	(149,755)	(226,687)
Total assets	1,895,820	2,714,342	3,396,448	3,287,913	3,089,332
Total liabilities	1,559,070	1,937,043	2,549,626	2,560,427	2,205,991
Total equity	336,750	777,299	846,822	727,486	883,341
Non-controlling interests in equity	22,436	12,833	45,145	35,852	40,326