GOME RETAIL HOLDINGS LIMITED
國美零售控股有限公司*

(formerly known as GOME Electrical Appliances Holding Limited 國美電器控股有限公司)
(Incorporated in Bermuda with limited liability)

(Stock Code : 493)

Capabilities Create Value

Annual Report 2017

* For identification purpose only

CONTENT

GOME at a Glance

GOME Retail Holdings Limited has been listed on The Hong Kong Stock Exchange since July 2004 (stock code: 00493). GOME was founded in China in 1987 and is engaging in the retail business of electrical appliances and consumer electronics in China. It is a leading electrical appliances and consumer electronics retail chain enterprise in China. GOME launched its "Home • Living" strategy in 2017 to evolve into a one-stop home solution provider, going beyond the traditional home appliance retailer field. GOME has expanded its home coverage, adding products and services including electrical appliances, home decoration, household products and home services. Utilizing cutting-edge internet technology, GOME integrates online shopping with offline experiences and continues to nurture "Shared Retail", its innovative business model. GOME embraces China's consumption upgrade with new technology and will contribute to the retail revolution in China.

Highlight

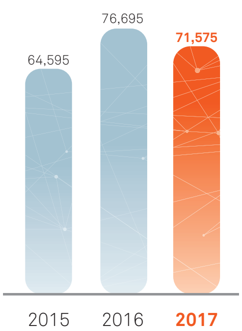
The total gross merchandise volume ("GMV") of the Group for both online and offline operations increased by approximately **20.10%**

The GMV from the e-commerce business increased by approximately **48.67%**

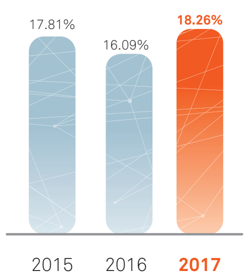
The GMV from the online marketplace increased by approximately **118.13%**

Sales revenue from the comparable stores increased by approximately **2.33%**

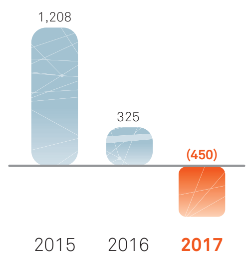
Revenue
(RMB million)



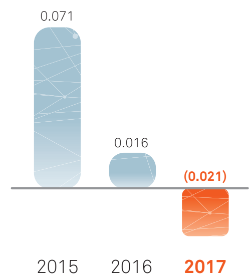
Consolidated gross profit margin*



(Loss)/profit attributable to owners of the parent
(RMB million)



Basic (loss)/earnings per share
(RMB)

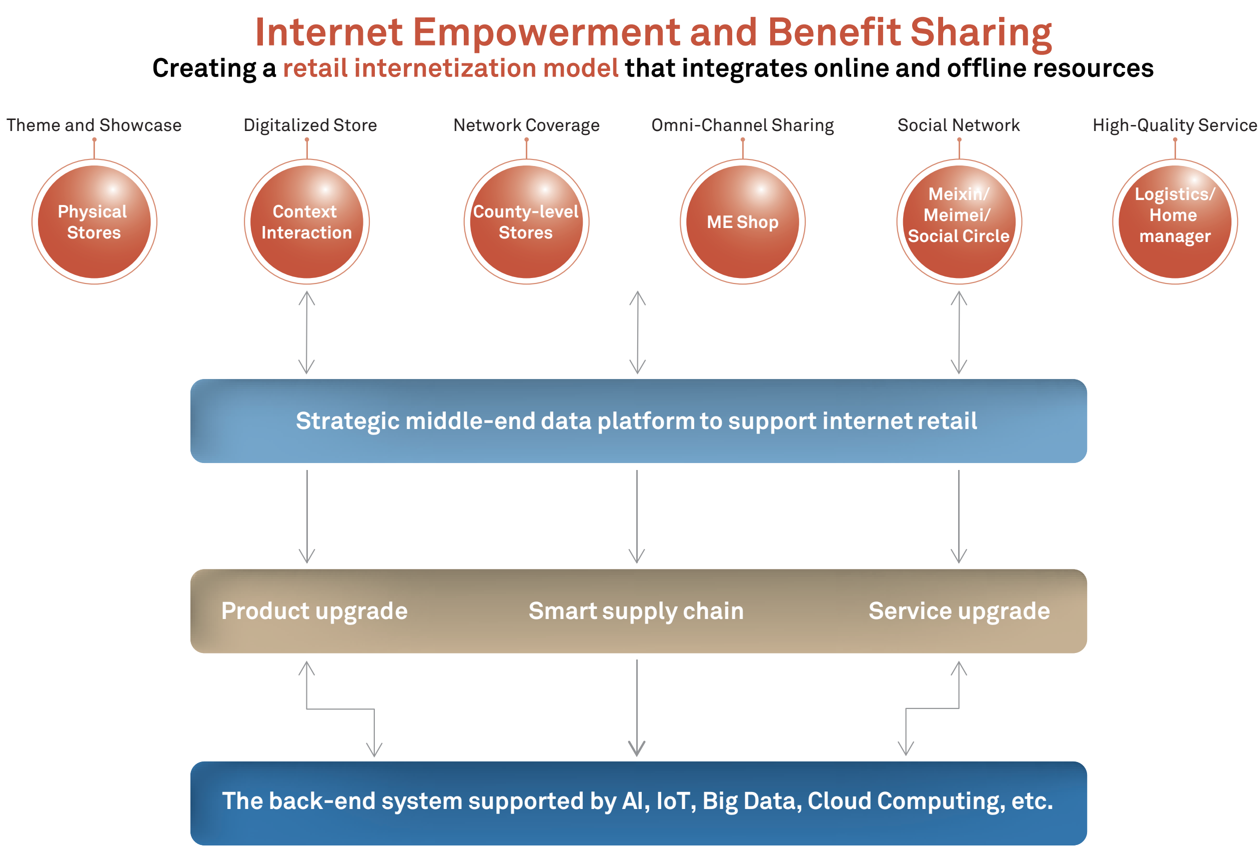


* Consolidated gross profit margin = (gross profit + other income and gains)/revenue

Five Year Financial Summary

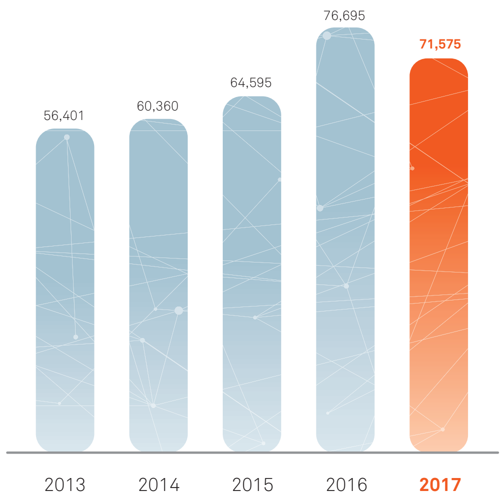
	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Revenue	**71,574,873**	76,695,025	64,595,127	60,359,843	56,400,662
(Loss)/profit attributable to owners of the parent	**(449,895)**	325,139	1,207,963	1,279,770	892,475
Total assets	**63,224,019**	61,802,129	41,587,785	44,076,673	39,323,985
Total liabilities	**45,697,793**	40,826,902	24,899,423	28,042,155	24,006,527
Non-controlling interests	**(2,386,899)**	(1,510,932)	(1,137,587)	(871,398)	(609,796)
Net assets	**17,526,226**	20,975,227	16,688,362	16,034,518	15,317,458

BLUEPRINT OF GOME STRATEGY

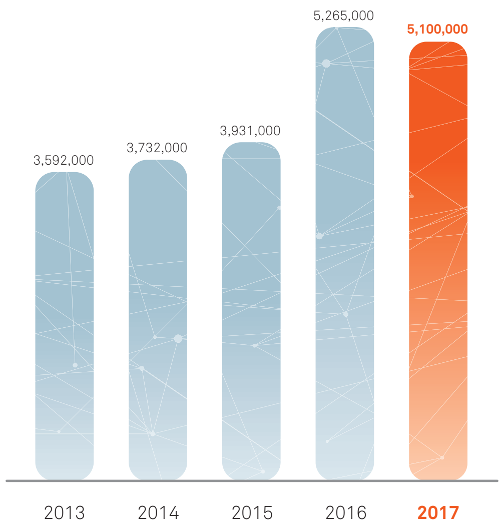


Financial and Operational Highlights

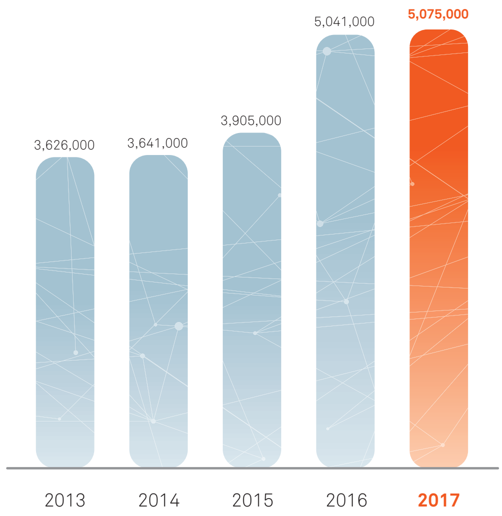
REVENUE
(RMB million)



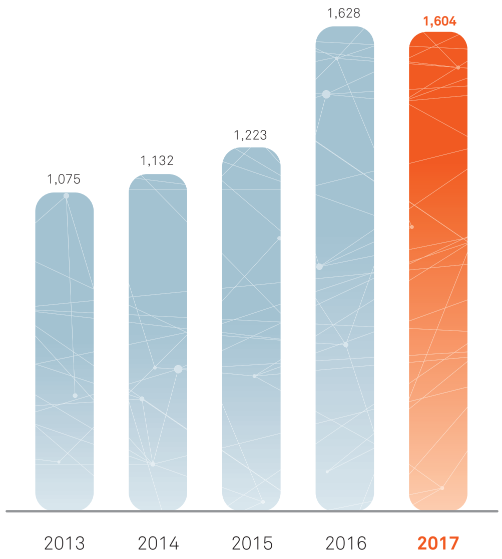
TOTAL SALES AREA AT YEAR END
(sq.m.)



WEIGHTED AVERAGE SALES AREA
(sq.m.)

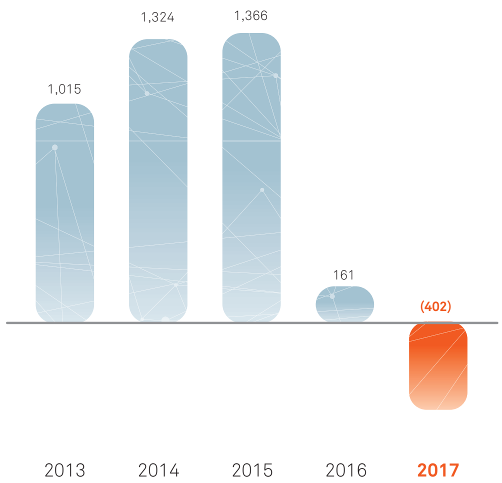


NUMBER OF STORES AT YEAR END

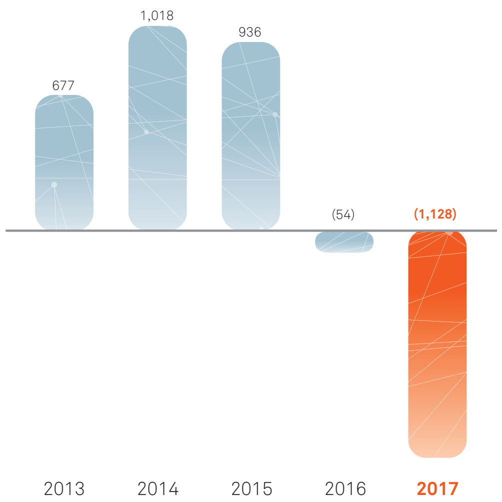


Financial and Operational Highlights

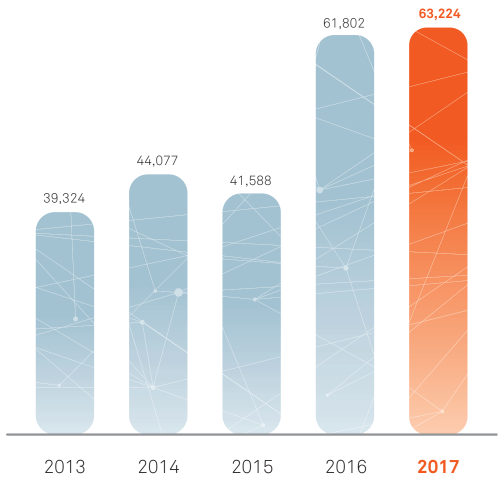
(LOSS)/PROFIT BEFORE FINANCE (COSTS)/INCOME AND TAX
(RMB million)



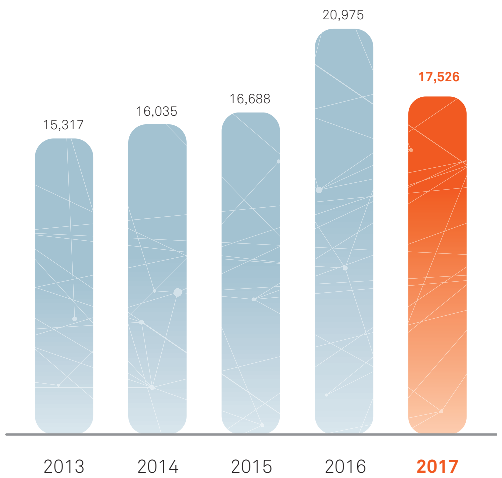
(LOSS)/PROFIT FOR THE YEAR
(RMB million)



TOTAL ASSETS
(RMB million)



NET ASSETS
(RMB million)




国美 家美 生活美
国美控股集团“家·生活”战略发布会
国美“家·生活”战略解读
从1.4万亿到10万亿的赛道竞速

In 2017, GOME launched its "Home • Living" strategy, confirming the Group's strategic blueprint of evolving into a one-stop home solution provider, going beyond the traditional home appliance retailer field. The launch of the new brand vision "Better lifestyle through GOME" is set to facilitate hundreds of millions of Chinese households in their leap from quality living to fine living.

Chairman's Statement

GOME adapts internet technology to offline stores to analyse big data of membership, merchandise and transactions, re-building the dynamic of "user, merchandise and shopping scenarios". We are looking forward to forming an internet retail platform of efficiency, openness and win-win synergy, further exploring the "Home • Living" market which is valued at RMB10 trillion. Internet is the future of GOME. We are committed to internet retail and achieving high-speed growth on the way, bringing higher returns for our shareholders.

ZHANG DA ZHONG
Chairman

Dear Shareholders,

In 2017, GOME Electrical Appliances Holding Limited changed its name to GOME Retail Holdings Limited (the "Company", with its subsidiaries, the "Group" or "GOME") and launched its "Home • Living" strategy in the second half of the year, confirming the Group's strategic blueprint of evolving into a one-stop home solution provider, going beyond the traditional home appliance retailer field. The launch of the new brand vision "Better lifestyle through GOME" is set to facilitate hundreds of millions of Chinese households in their leap from quality living to fine living. The Group will promote the brand image of "Enjoy GOME, Enjoy Living", improving customers' living standards with technology and style.

In the last 40 years, families in China have experienced improvements in standard of living in three different stages: from merely surviving to quality living and to fine living. The industry also underwent constant changes. In the past year, online retail growth slowed down while the competition in offline retail intensified with Internet companies rushing to compete offline. A lot of the retailers with new technology, new business models and new products benefitted from investments, which shows that the new retail is now being embraced by the venture capital. It also shows that businesses are willing to work together to boost their strength in the market. But what's the real reason behind that drives online and offline companies to suddenly decide to cooperate with each other? We believe there are two reasons: First, they cannot find their own model of success; second, they may not have the capabilities to do it on their own. For the enterprises that went from online to offline, there were significant issues with their business models and capabilities. And offline businesses also encountered problems in their pursuit of online business.

The current situation highlights the competitive edge of GOME. With 30 years of experience and a good understanding of the application of internet technology, GOME enjoys a high-level of consumers' recognition and a good reputation. GOME has strong capabilities when it comes to opening stores across the country, managing merchandise, delivering large and medium-sized goods and providing after-sales services. GOME can also connect with its customers through many scenarios, and even can connect its customers through services at home, which is one of its major strength.

In response to the development of the market, GOME hopes to serve a wider consumer base, from solely in the electrical appliance business to "Home • Living", a one-stop home solution provider. The home appliance market is valued at RMB1.8 trillion, whereas the "Home • Living" market is valued at RMB10 trillion. This presents a new challenge to our services which we will meet head-on with a high-level of efficiency, openness and mutual benefits.

The development of the retail industry has seen companies evolve from using automation and information system to embrace the internet and smart technology. We will continue to focus on the application of new technology and actively seek technical support on the business side, to lower the costs and increase efficiency. The technical side of our business will actively explore the value of business operations and offer support with continuous upgrades of our technology. At the same time, with the two-way interaction between business and technology, the needs of the business side become more specific, product acceptance and delivery become more precise, and the technical side actively seeks the realization of demand and technology monetization to empower the business.

Last year, the Group vigorously promoted the integration of its online and offline businesses and launched the new GOME APP, confirming the shared retail model of "Social + Business + Shared Benefits" for online transactions and offline experiences. The move initially achieved online and offline unification in areas including merchandise, memberships, pricing, marketing promotions, inventory, logistics, etc. In addition, the capability of the Group in providing services has also been continuously upgraded. Logistics capabilities, such as "Three Deliveries/day", "Precise Delivery" and "Installations with Delivery", covered 95% of the prefecture-level cities, 91% of the counties and 85% of the rural towns. At present, delivery + installation monitoring service, one-touch subscription for repairing, service, service rating, electronic warranty card, appointment service, etc. are available on the "GOME House Manager".

The year 2017 marked the 30th anniversary of GOME and it was also the year we redefined retailing. By exploration, we identified the strategy of "Home • Living", established the new brand positioning of "Better lifestyle through GOME". In 2018, in the 31st year since the founding of GOME, we propose internet-enabled shared retail. GOME will attach more importance to information and connectivity, and promote full use of internet and digitalization. We value the idea of "Boundless Business and Symbiotic Coexistence", so we use the internet to enable a shared retail model that combines community, business and benefits sharing and allows the customers to buy online while enjoying offline experiences. The model uses GOME APP as its main gateway to attract user traffic. GOME will strive to enhance the three core capabilities of "Products, Operations and Services" and create core business systems for electrical appliances, home decoration, household products and home services. We are looking forward to forming a valued community of "Home • Living" and a collaborative platform of efficiency, openness and win-win synergy. With the endeavors mentioned above, GOME will meet consumers' desire for good living.

Finally, I would like to express my heartfelt admiration and appreciation for the untiring efforts of all GOME staff members as well as my sincere gratitude to all sectors of the community for their support. We will continue to devote ourselves to the interests of shareholders, employees and customers as well as the long-term sustainable development of GOME. I am very confident that under my leadership, GOME will develop rapidly and steadily, overcome all challenges and realize the continuous execution of the new retail strategy.

Zhang Da Zhong
Chairman

Management Discussion and Analysis

Regarding the evolution of consumption, GOME plans to merge internet technology into its retail platform. Using the integrated "Home • Living" stores as the model, the Group will continue to experiment new kinds of stores, such as community stores and high-tech unmanned stores, featuring internet intelligent technology including self-service cashier and cloud inventory with millions of SKU, to realize online and offline empowerment, dynamic layout and to further expand the market.

OVERVIEW

For the year ended 31 December 2017 (the "Reporting Period"), GOME Retail Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") launched "Home • Living" strategy. This new blueprint follows the Group's plans to evolve into a one-stop home solution provider, going beyond the traditional home appliance retailer field. Accordingly, the Company changed its name to "GOME Retail Holdings Limited" from "GOME Electrical Appliances Holding Limited". In the second half of 2017, the Company announced a new brand vision – "Better Lifestyle Through GOME", which is set to facilitate hundreds of millions of Chinese households in their leap from quality living to fine living with technology and style.

During the Reporting Period, the Group's total gross merchandise volume ("GMV") for both online and offline operations increased by approximately 20.10% as compared with the corresponding period last year. The sales revenue from the comparable stores increased by approximately 2.33% year-on-year. The consolidated gross profit margin maintained at a high level which increased by 2.17 percentage points, from 16.09% for the corresponding period last year to approximately 18.26%. With the e-commerce business entering the online-offline integration stage, where there had been a decrease in direct e-commerce sales revenue, result in the Group's total sales revenue was down by 6.68% to approximately RMB71,575 million, as compared with RMB76,695 million for the corresponding period last year. The GMV from the e-commerce business increased by approximately 48.67% while GMV from the online marketplace increased by approximately 118.13% as compared with the corresponding period last year. The Group now has over 200 million members and is speeding up its expansion on the services regime and expanding into the fourth- and fifth-tier cities to enhance its new competitive advantage.

During the Reporting Period, the overall operating performance of the Group remained strong. Based on applicable accounting standards, the Group impaired the goodwill for its under-performing business of approximately RMB215 million, and impaired the property and equipment of approximately RMB374 million. In addition, interest on bonds payable also increased from

RMB207 million to approximately RMB597 million in the period, as a result of the increase in debts. Taking into account the above factors, the Group's loss attributable to owners of the parent during the Reporting Period was approximately RMB450 million, as compared with a profit of RMB325 million for the corresponding period last year. However, if the non-operating items, such as impairment of goodwill, impairment of property and equipment, fair value gains on equity investments, gains on derivative financial instruments, foreign exchange loss, income from compensation and interest expense on bonds payable are excluded, the profit of the Group would be approximately RMB531 million, increased by 24.36% as compared with RMB427 million for the corresponding period last year.

We are looking forward to forming an internet retail platform of efficiency, openness and win-win synergy, further exploring the "Home • Living" market which is valued at RMB10 trillion. We are committed to internet retail and achieving high-speed growth on the way, bringing higher returns for our shareholders.

BUSINESS ENVIRONMENT

During the Reporting Period, there was a broad-based recovery in the world's economy. A United Nations report showed that the world economic growth rate was about 3% in 2017, which was the highest in the last 10 years. With the rise in the price of bulk commodity and an increase in international trade growth, the confidence of both the enterprises and consumers also grew. Global economic commentators indicated almost unanimously that the global economy achieved a synchronous and strong cyclical recovery in 2017.

According to data from the National Bureau of Statistics, China's economic growth rate was 6.9% in 2017, much higher than the world's average level, and it was one of the main drivers of the global economic growth. The market scale of consumer goods further expanded because of resident income continued to increase and consumption upgrade sustained in China. New operation models and new business models developed rapidly. The business models, product mix and the urban and rural market structure were optimized continually. Consumption continued its role as the the main driving force of China's economic growth.

For industrial environment, consumption upgrades and progress in technology continued to promote the reform of the retail industry in 2017. Integration of online and offline, big data, cloud computing and artificial intelligence have become the talk of the town nowadays. The new market environment and consumer demand led to new shopping scenarios, new business formations, new models and new strengths.

MARKET DEVELOPMENT POTENTIAL IN THE FUTURE

Based on recent researches, China's consumer confidence index has picked up, residents' willingness to consume is steadily increasing and there are plenty of room for future consumption growth. Chinese resident's consumption still accounted for less than 40% to the GDP for nearly five years, far lower than the developed countries such as the USA and Japan. It is possible to greatly stimulate consumption, by continuing improvement in the social security system and confidences towards medical care, pension, and thus reducing the overall saving rate.

Looking forward, new retail model will further promote in-store experiences for customers. The online marketplace will continue to merge with offline, and therefore the digital world and the physical world will eventually merge into one world. There will be more retailers in 2018 shaping their unique shopping scenarios, in which consumers are not just simple shoppers, they will also share and exchange experiences with each other. The retail industry will evolve and it will become a social community.

BUSINESS REVIEW

"Home • Living" strategy seeking market breakthrough

All-rounded Experiential Stores of "Home • Living" Theme

The Group built "Home • Living" theme in its new experience stores to demonstrate the new scenarios. The initiative allows the Group to add products and services including electrical appliances, home decoration, household products and home services and to transform from a home appliances retailer to a one-stop home solution provider.

The Group has continued to transform 74 of its stores in Beijing, Shanghai, Guangzhou, Shenzhen, Jinan, Wuhan and Xi'an into experiential stores during the Reporting Period. There were 65 renovated stores located in the first-tier market and 9 renovated stores in the second-tier market. The renovated stores have improved significantly in traffic and sales volumes. In 2018, the Group will further transform approximately 120 stores and assign home decoration designers to approximately 100 existing stores.

Optimizing Store Network

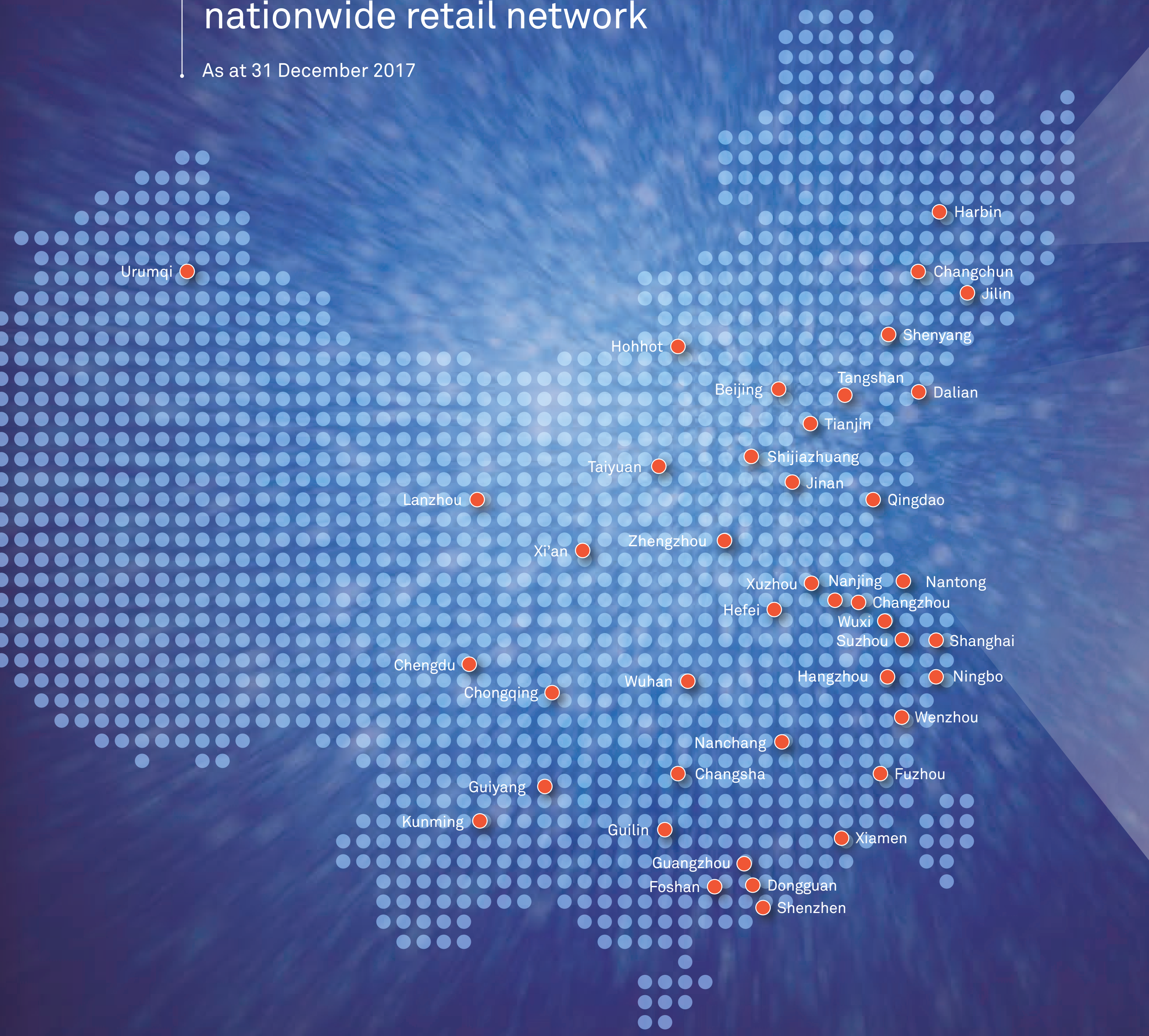
Focusing on structure optimization and cost control, assisted by supplementary store openings and the transformation of stores, the Group has set up new scenarios in the stores in the first-tier market during the Reporting Period. In the second-tier market, the Group has accelerated the development of central stores in prefecture-level cities with zero or low presence of GOME stores. The Group has developed county-level stores in the fourth-tier and the fifth-tier markets by opening new stores and utilizing internet technology. The initiatives helped the Group quickly occupying the blank markets, thus boosting the market share.

The Group opened 98 new stores in 2017, including 57 stores in the first-tier market and 41 stores in the second-tier market, and closed 122 stores, including 65 stores in the first-tier market and 57 stores in the second-tier market. The net decrease of stores for the year was 24. The total number of stores at the end of the year reached 1,604.

The Group's store rental to sales ratio was 5.77%, a slight increase as compared with 5.37% for the corresponding period in 2016. The Group rented a total of 1,565 stores, among which the leases of 259, 164 and 200 stores will be expiring in 2018, 2019 and 2020, respectively. During the Reporting Period, the Group had 39 self-owned stores with a total area of approximately 282,000 sq.m., accounting for approximately 5.53% of the total operating area of the Group.

The Group's
nationwide retail network

As at 31 December 2017



On 31 December 2017, the total number of stores operating under the Group reached 1,604 and spanned 425 large- and medium-sized cities.

The Group's total Number of Stores as at 31 December 2017:

Flagship stores	Standard stores	Specialized stores	Total
303	462	839	1,604

Development of Store Network

	GOME	Group China Paradise	Dazhong	CellStar	Total
Flagship stores	252	29	21	1	303
Standard stores	409	37	13	3	462
Specialized stores	720	64	12	43	839
Total	**1,381**	**130**	**46**	**47**	**1,604**
Among them: First-tier market	718	88	37	40	883
Second-tier market	663	42	9	7	721
Net increase/(decrease) in store number	(19)	(4)	1	(2)	(24)
Number of stores opened	86	4	3	5	98
Among them: First-tier market	46	4	2	5	57
Second-tier market	40	–	1	–	41
Number of cities accessed	425	60	1	6	425
Among them: First-tier cities	38	9	1	1	38
Other cities	387	51	–	5	387
Number of cities newly assessed	3	–	–	–	3

Management Discussion and Analysis

LIST OF STORES

Region	Flagship stores	Group Standard stores	Specialized stores	Total
Beijing	36	26	13	75
Shanghai	41	31	14	86
Tianjin	10	14	9	33
Chengdu	15	29	23	67
Chongqing	9	20	30	59
Xi'an	15	29	63	107
Shenyang	6	12	17	35
Qingdao	10	9	17	36
Jinan	14	18	21	53
Shenzhen	14	24	29	67
Dongguan	–	6	9	15
Guangzhou	13	29	50	92
Foshan	7	7	18	32
Wuhan	9	16	35	60
Kunming	4	5	22	31
Fuzhou	6	13	22	41
Xiamen	4	13	35	52
Henan	9	26	59	94
Nanjing	3	15	17	35
Wuxi	4	3	7	14
Changzhou	2	4	4	10
Suzhou	3	6	8	17
Hefei	3	5	6	14
Xuzhou	1	4	16	21
Tangshan	1	–	2	3
Lanzhou	7	4	12	23
Wenzhou	1	–	11	12
Jiangxi	3	10	45	58
Anshan	1	3	–	4
Dalian	6	6	14	26
Guangxi	1	11	28	40
Guizhou	2	4	9	15
Hebei	3	3	14	20
Heilongjiang	8	6	19	33
Hunan	4	6	21	31
Jilin	4	2	4	10
Nantong	–	2	5	7
Inner Mongolia	3	5	11	19
Ningbo	2	3	22	27
Shanxi	7	7	17	31
Xinjiang	6	12	14	32
Changchun	–	2	8	10
Zhejiang	6	12	39	57
Total	303	462	839	1,604

Partnerships with Home Decoration Business

The Group invested in "iKongjian", a standardized home decoration company, in May 2017, accelerating its transformation into new retail. "iKongjian" started with a new model of home decoration business through standardized products, delivery and services, which has developed into a fast growing and sizable home decoration company with high customer satisfaction. The strategic partnership between GOME and "iKongjian" has opened up a completely new segment of the market. The two parties combined and integrated their memberships, supply chains and marketing campaigns to provide consumers with one-stop services of "Home Decoration + Households Products + Home Appliances" and allow the consumers to enjoy extreme convenience experiences.

Supply Chain

The Group believes that the core ability of the supply chain is to be able to select and procure high-quality merchandise and to create a differentiated products structure. Based on the good and long-term cooperative relationship with the suppliers, many differential product models were carried out including ODM/OEM, initial sales and customization. These are the product strengths of the Group in addition to pricing advantages. In 2017, the Group has strengthened the cooperation with key suppliers in product selection and differentiation, enabled smart product selection process through big data technologies and interaction with manufacturers, further enhanced proportion of customization products and strengthened its bargaining power.

Internet Technology Empowers GOME New Retail

As the most important strategic initiative of GOME in 2017, the Group re-positioned and restructured its internet business. In the new structure, GOME Internet acts as a connector, creating its own traffic, importing external traffic and recording all the consumption behavior data. It uses big data to empower the shopping scenarios, full service life cycle and the supply chain of both online and office businesses. GOME Internet is also an important platform for traffic re-distribution, creating a shared retail model of "Social + Business + Benefit Sharing". The shopping scenarios and products from both online and offline are interconnected, thus attracting traffics from each other, increasing users activities as well as enhancing their loyalties.

GOME APP – ME Shop, Meixin, Shopping Mall and Meimei

The Group has integrated and developed many virtual sales channels such as "ME Shop", "Meixin", "Shopping Mall" and "Meimei" under the shared retail model, which are connected to our advantages in platform, technology and supply chain and are shared to all of our users. "Meixin" is a social sharing channel; "Shopping Mall" is an e-commerce platform that provides unlimited merchandise; "Meimei" is a content marketing channel. GOME, business owners and "ME Shop" owners can create marketing content on "Meimei", so that everyone can run business and push sales.

Management Discussion and Analysis

As an interest sharing and distribution tool, "ME Shop" is not only opened to promoters of GOME, but also to every GOME user. If the customers want to start a new "Home • Living" theme shop, they can simply register by pressing one key and select products from GOME's merchandise system on GOME APP, and then they can operate their own shop at zero cost, hassle free and zero risk. The customer can share the "ME Shop" and products with friends through various social channels. When a product is sold, a commission is earned by the customer. In this way, everyone can join the process of making a shared retail. GOME's supply chain and internet products support everyone to sell goods. With the continuing development of GOME's products and services and the increase in user activity, "ME Shop" will enjoy an improved traffic flow, enhanced ability of distribution as well as huge volume of sales data.

GOME APP is a platform integrated with "Social + Business + Shared Benefits" and supported by more than one hundred thousand of GOME promoters, coupled with approximately 1,600 offline stores and logistics and after-sale services covering more than 400 cities across the country. It is a multi-functional platform, which provides social, supply chain, marketing promotion, sharing and rebates for the "ME Shop" owners, third-party business owners and GOME self-operating business. It also provides support to the stores and services of the Group. In this way, the online business owners can improve their capability of online operation and marketing. The online business owners who need to expand into the offline business can realize a variety of operations including display, experience and services. GOME APP is able to quickly spread quality products and services to the whole country, giving "ME Shop" owners access to better products and services for promotion and sales.

Shared Retail

Shared retail is a new business model created by GOME, with decentralization and boosting sales traffic at its core. In this model, everyone can share the value of the platform for free, integrate themselves into the inherent business chain, and become one of the operators at zero cost with zero input. As a member of the shared chain, the operator can enjoy carefree shopping, continue to develop his social network while share the benefits from business transactions.

In the future, internet technology will continue to be applied throughout the retail process. GOME will use its middle-end data platform to support the integration of its online and offline businesses and to build up its retail ecosystem with enriched scenarios.

All-rounded Service Upgrading

Process Restructuring

With the popularization of the internet, the Internet of Things ("IoT"), and the Internet of Services, the retail industry has changed the way it perceives purchase and service. In the past, purchase is the end of the transaction, but now purchase means the beginning of the services. Following that idea, the Group adjusted its management and operation process, putting more attention on user experience. The Group operated its service process based on the demands of customers, instead of its own convenience in management. The transformation of its process and management of business has significantly improved customers' experiences and satisfaction.

Sailing Project

In September 2017, the Group formally launched its Sailing Project aiming at the after-service market. The project made use of internet technology to realize the customer-oriented monitoring services, including delivery monitoring services, after-sales monitoring, installation and maintenance monitoring and customer service monitoring. It allows customers to monitor every single step in the consumption cycle and develops a two-way monitoring interface for both users and the enterprises, lifting the service quality and industry benchmark.

Optimizing Logistics Services

In 2017, to improve the efficiency of the supply chain, the Group put great effort into establishing several central warehouses (warehouses with delivery capability covering multiple regions) in Shanghai, Xi'an, Chengdu, Wuhan and Guangzhou, etc., to assist adjacent warehouses in solving stock-out and shortage problems of high-end and fast-moving goods. Leveraging on the digitalized and automated management system, central warehouses are able to transport required bulky goods to city warehouses or stores on time, the supply of goods to consumers promptly and efficiently is guaranteed.

During the Reporting Period, the Group vigorously promoted the services of "Same-day Delivery", "Next-day Delivery" and "Precise Delivery". At present, "Same-day Delivery" services are covering 2,536 cities and counties nationally, "Next-day Delivery" services are covering 5,321 cities and counties, and "Precise Delivery" services are covering 37,322 cities and counties. Looking forward, the Group will promote services of "Delivery on Schedule" and "Compensation for Delays".

In 2017, the Group provided "Installation with Delivery" (one-stop service of delivery and installation) for all brands of TVs. The service covered 193 cities and 1,588 counties in China. Users were able to specify delivery time and address through the GOME APP, and engineers were able to upload installation data to the GOME APP in real time as well, presenting the whole delivery and installation process in a visual interface, which has greatly improved customer experiences.

"GOME House Manager"

"GOME House Manager" provides full life cycle services of electrical appliances, including delivery and installation, repair and maintenance, home appliances recycling, smart appliances and smart customer service. The service areas cover more than 300 major cities in China currently. Users not only enjoy delivery services, such as "Three Deliveries/day", "Precise Delivery", "Installation with Delivery", etc., but they also have access to services including one-key reservation, door-to-door, quick response within 26 minutes and other after-sales services through "GOME House Manager". In addition, the Group has also launched new e-warranty card, e-manual, delivery + installation monitoring services and other new functions. "GOME House Manager" also keeps maintenance and cleaning records in its database, allowing users to access them at any time.

Smart Customer Service – "GOME Jiunuo"

"GOME Jiunuo" is a full-ranged customer service system of the Group, which realizes the deep integration of online and offline. It uses a new Customer Relationship Management (CRM) system to provide services such as customer hotline, online customer service, order tracking, return call research, marketing promotion and arrears reminders, etc. In order to ensure the quality of service, "GOME Jiunuo" has established a quick response mechanism that replies within 3 seconds, achieving a connection rate of more than 99% and providing solutions to the customers within 1 hour. In addition, GOME Jiunuo provides customers with professional customized services by categorizing the customers based on their demands. After the completion of the service, GOME Jiunuo will contact the customers for feedbacks. It also follows the key customers during the whole process, to provide all-rounded care for customers and meet all kinds of demands.

Strengthening Information System

During the Reporting Period, the information center of the Group built an all-in-one full channel service platform of "Home Appliances + Home Decoration+ Household Products + Home Services", taking "Home • Living" as the strategy and with the goal of becoming an overall product + service solution provider and service provider. In order to establish the new retail ecosystem, the platform empowered the physical stores of the Group with internet technology as well as provided technical supports to the integration of online and offline businesses.

"Service+" IoT project

The Group launched the "Service+" IoT project in July 2017. The project uses carefully selected goods as a breakthrough, and applies the IoT, big data, cloud computing and other supporting technical facilities established by the Group to upgrade the supply chain management system and develop the service integration system. This project integrates the sales chain, data chain and service chain. The customer experience and purchase rate can be improved through the sales chain management; the product-related information in the after-service market can be acquired through the data chain management; after data processing and analysis, the service chain can be optimized finally to complete service orders, and provide accurate personalized services to ensure customer satisfactions.

CORPORATE GOVERNANCE

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

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

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

CONSTRUCTION OF CORPORATE CULTURE

During the Reporting Period, the Group referred to the cultural activities related to the 30th Anniversary Celebration of the Group, paying more attention to reviewing the best practices, refining outstanding models in the 30-year history of GOME, and redefining and empowering the various values in the culture of honesty. Based on the existing culture of "Trust", the four key values are "Integrity", "Behavior", "Knowledge" and "Ability". They were redefined from the perspectives of individual's intrinsic requirements and explicit behaviors by combining the society and corporate's expectations for personnel under the new economic environment.

The Group is convinced that enterprise culture stems from the mindfulness and behavior exhibited by employees at all levels in the history of development of the enterprise and will play a leading and simulative role in the development of the enterprise in the future. The prerequisite for an enterprise to follow the rapid social and economic changes is to make the connotation and implementation of corporate culture keeping up with the times. As works related to enterprise culture are optimized and iterated continuously, the Group also keeps collecting feedbacks from employees at all levels in order to improve job satisfaction, promoting innovation, striving for excellence, deepening enterprise culture work, and safeguarding the mutual and harmonious development of employees, enterprises and society.

HUMAN RESOURCES

During the Reporting Period, the training center of the Group, focusing on improving the abilities of mid-to-high-level management and front-line staff, have driven the improvement of the overall operating capabilities of the Group and ensured the implementation of the Group's strategy.

"Golden Eagle Reservoir Training" is an important project for the Group to reserve talents for mid-to-high-level management. The program changed its traditional way of teaching to an interactive and innovative form, including "Face-to-face Teaching + Outward Bound + Assessment + Action Plan + Practice". At the same time, training courses were comprehensively upgraded and expanded, and many topics, such as Finance, Operation, Business, Human Resources and the Marketing Innovation under the Internet Era, were added. In terms of assessment, role-playing, work reporting and face-to-face interview were used to conduct professional assessment to students, to improve self-awareness and professional competence of the employees in all aspects.

In order to promote new scenarios and new businesses in the flagship stores, the Group established a training centre in Xi'an and selected a number of flagship managers countrywide to participate in the second phase of the "Navigator Plan". The training courses covered, among others, the introduction and promotion of the home design and home decoration business, use of the internet, promotion of the "ME Shop" and marketing of new scenarios, etc.

In 2017, the Group was awarded the titles of "Top 100 Employers" and "Top Ten CCFA Corporate Universities".

FINANCIAL REVIEW

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

Revenue

During the Reporting Period, the Group's revenue was approximately RMB71,575 million, down 6.68% from RMB76,695 million in 2016, mainly due to the e-commerce business entering into the online-offline integration stage with a decrease in direct e-commerce sales. The Group's weighted average sales area was approximately 5,075,000 sq.m. and the revenue per sq.m. (excluding sales revenue from the e-commerce business) was approximately RMB13,273, increased by 1.97% as compared with RMB13,016 for the corresponding period in 2016.

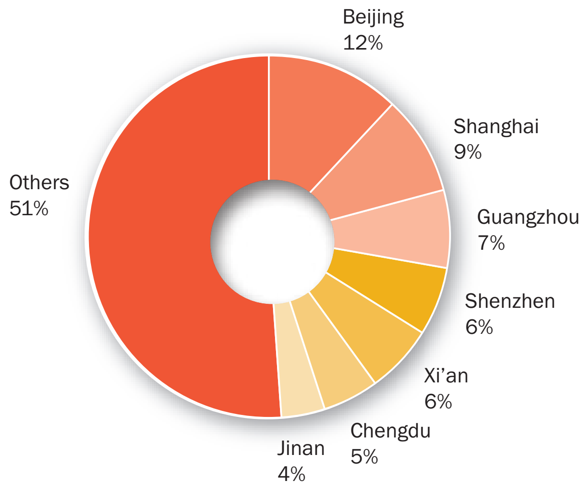
During the Reporting Period, aggregate sales of 978 comparable stores of the Group was approximately RMB46,879 million, up 2.33% from RMB45,812 million for the corresponding period in 2016. Sales revenue from the four regions of Beijing, Shanghai, Guangzhou and Shenzhen accounted for approximately 34% of the total revenue, as compared with 36% for the corresponding period last year, representing a decrease in revenue contributed from the first-tier market and a continuing increase in revenue contributed from the second-tier market.

Cost of sales and gross profit

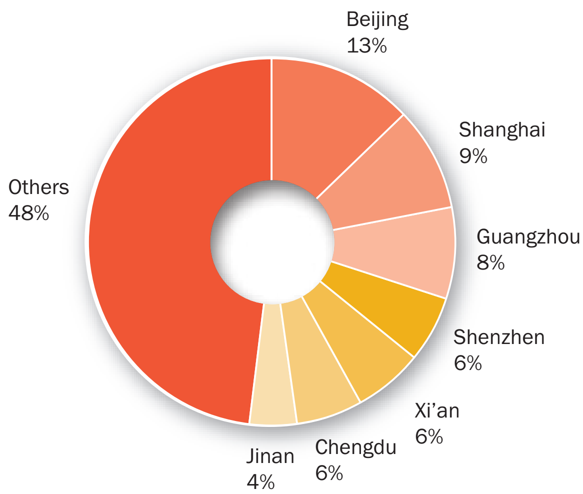
Cost of sales of the Group was approximately RMB60,520 million in the Reporting Period, accounted for 84.55% of the revenue, decreased as compared with 86.47% for the corresponding period in 2016. Gross profit was approximately RMB11,055 million, up 6.53% from RMB10,377 million in the previous year. The gross profit margin was 15.45%, increased by 1.92 percentage points as compared with 13.53% for the corresponding period last year. The increase in gross profit margin was mainly attributable to the increase in differentiated product sales and decrease in the revenue from the e-commerce business with relatively low gross profit margin during the year.

SALES REVENUE OF THE GROUP BY REGION:

2017

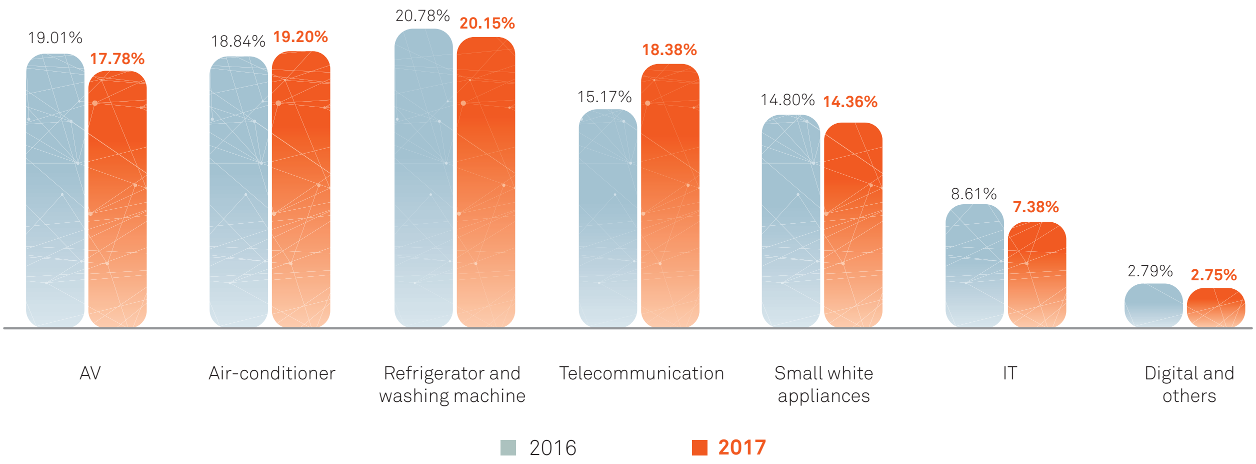


2016

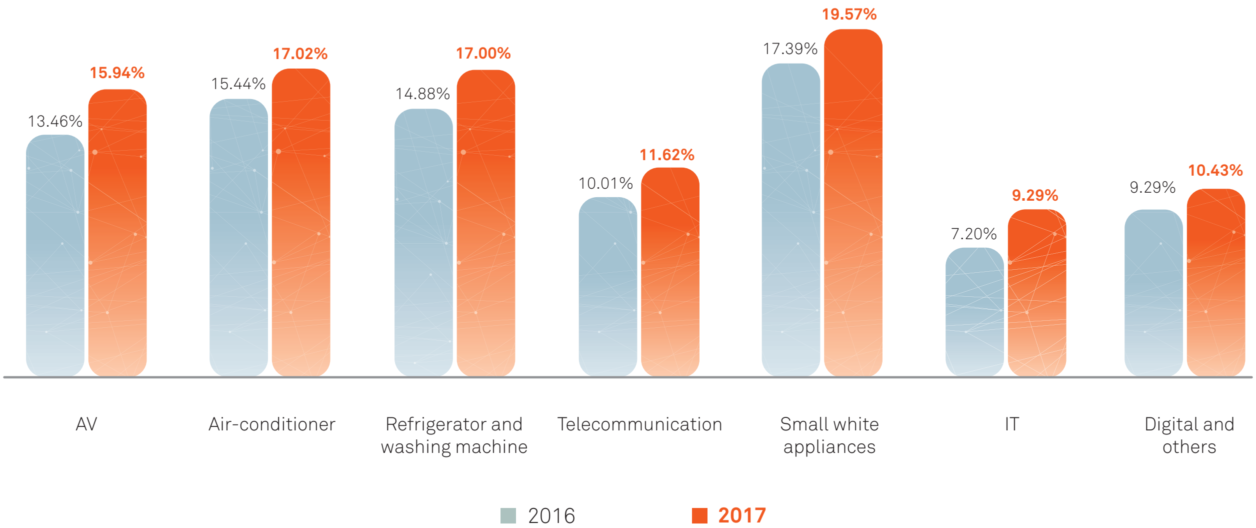


Management Discussion and Analysis

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



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



Other income and gains

During the Reporting Period, the Group recorded other income and gains of approximately RMB2,012 million, representing an increase of 2.44% as compared with RMB1,964 million in 2016.

Summary of other income and gains:

	2017	2016
As a percentage of sales revenue:		
Income from suppliers, net	**0.60%**	0.51%
Income from air-conditioner installation	**0.27%**	0.25%
Gross rental income	**0.34%**	0.39%
Government grants	**0.21%**	0.23%
Other service fee income	**0.50%**	0.44%
Others	**0.89%**	0.74%
Total	**2.81%**	2.56%

Consolidated gross profit margin

During the Reporting Period, as a result of the increase in the gross profit margin and other income and gains margin, the Group's consolidated gross profit margin also increased by 2.17 percentage points from 16.09% for the corresponding period last year to 18.26%.

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

Operating expenses

During the Reporting Period, the Group's total operating expenses (including selling and distribution expenses, administrative expenses and other expenses) were approximately RMB13,449 million as compared with RMB12,180 million for the corresponding period last year. The expenses ratio was 18.79%, up by 2.91 percentage points as compared with 15.88% for the corresponding period in 2016.

The increase in the operating expenses, among others, was mainly attributable to the increase in administrative expenses and the non-operating items as further discussed in other expenses below.

Summary of operating expenses:

	2017	2016
As a percentage of sales revenue:		
Selling and distribution expenses	**13.41%**	12.32%
Administrative expenses	**3.24%**	2.58%
Other expenses	**2.14%**	0.98%
Total	**18.79%**	15.88%

Management Discussion and Analysis

Selling and distribution expenses

During the Reporting Period, the Group's total selling and distribution expenses increased slightly by 1.56% from RMB9,448 million in the corresponding period last year to approximately RMB9,595 million. The selling and distribution expenses ratio was 13.41%, increased by 1.09 percentage points as compared with 12.32% for the corresponding period in 2016. The increase in selling and distribution expenses ratio was mainly due to the rental expenses as a percentage of sales revenue increased by 0.4 percentage point from 5.37% in the corresponding period last year to 5.77%, the salaries as a percentage of sales revenue increased by 0.36 percentage point from 2.96% in the corresponding period last year to 3.32%, and the delivery expenses as a percentage of sale revenue increased by 0.21 percentage point from 0.72% in the corresponding period last year to 0.93%. Overall, the Group's selling and distribution expenses ratio increased as a result of decrease in the sales revenue, however the amount of expenses still remained at a relatively stable level.

Summary of selling and distribution expenses:

	2017	2016
As a percentage of sales revenue:		
Rental	**5.77%**	5.37%
Salaries	**3.32%**	2.96%
Utility charges	**0.86%**	0.78%
Advertising expenses	**1.27%**	1.17%
Delivery expenses	**0.93%**	0.72%
Others	**1.26%**	1.32%
Total	**13.41%**	12.32%

Administrative expenses

During the Reporting Period, the Group's administrative expenses were approximately RMB2,322 million, higher than that of RMB1,980 million for the corresponding period in 2016 by 17.27%. The expenses ratio was 3.24%, increased by 0.66 percentage point as compared with 2.58% for the corresponding period in 2016, mainly due to the Group increased expenses on research and development to enhance its application on big data, improve customer experiences and the management function of the information system during the year. The Group has always strive to strengthen its control over administrative expenses in order to maintain its expenses over revenue ratio at a relatively low level in the industry.

Other expenses

During the Reporting Period, other expenses of the Group mainly comprised, among others, business tax, bank charges, foreign exchange loss, impairment of goodwill and impairment of property and equipment, which increased from RMB752 million for the corresponding period in 2016 to approximately RMB1,531 million. The increase was mainly attributed by: (1) the impairment of goodwill for the Group's under-performing business amounted to approximately RMB215 million; (2) the impairment of property and equipment amounted to approximately RMB374 million; and (3) the foreign exchange loss of approximately RMB154 million mainly due to, among others, loss incurred by the interest-bearing bank loans denominated in Euro, as Euro has appreciated against Renminbi during the Reporting Period. As a result, the other expenses over revenue ratio reached approximately 2.14%, up 1.16 percentage points as compared with 0.98% for the corresponding period in 2016.

Impairment of goodwill

In July 2016, the Group completed the acquisition of Tengda Electrical Appliances Co., Ltd., which operated a chain of 62 retail stores for electrical appliances and consumer electronic products in Jiangxi Province of the PRC under the brand name of "騰達電器" (the "Tengda Business"). The consideration for the acquisition was RMB215 million and the acquisition was not a notifiable transaction for the Company under Chapter 14 of the Listing Rules.

The original intention of the acquisition of the Tengda Business was to expand the number of retail stores of the Group in Jiangxi Province and raise revenue. The result of the Tengda Business at the time of its acquisition was at an acceptable level and the management of the Company had not anticipated that the local market in Jiangxi would deteriorate. Owing to adverse market conditions in Jiangxi and the surge of on-line sales which eroded the revenue and profit margin of physical stores, the performance of the Tengda Business in 2017 was short of expectation. The management has made certain adjustment to the Tengda Business by closing a number of underperformed stores but the performance of the Tengda Business was still short of expectation. In order to better organise the Group's business, the supply chain and logistics support in Jiangxi to tackle the highly competitive and difficult local environment, the Group decided to optimize the Tengda stores by combining the stores under the Tengda Business with those operated by the Group under the "GOME" brand in the fourth quarter of 2017, and the use of the brand of "騰達電器" was then discontinued.

The continuous underperformance of the Tengda Business indicated an impairment of goodwill on the Tengda Business. Impairment testing according to the requirement of IAS 36 was performed with the recoverable amount lower than the carrying amount. As a result, impairment loss in the amount of RMB215 million was recognized in the fiscal year ended 31 December 2017.

The key assumptions for calculating the value in use are set out in note 15 of the financial statement.

Impairment of property and equipment

In 2017, the Group has vigorously promoted the integration of its online and offline businesses. The move initially achieved online and offline unification in areas including merchandise, memberships, pricing, marketing promotion, inventory, logistics, etc. and enhanced the digitalisation of the physical stores so as to bring the best experience to the customers and focusing on the overall income of the Group rather than pursuing only on the development of the e-commerce business. At the same time, the mobile app (GOME APP) of the Group has also been adjusted and changed from a sales platform to a "Social + Business + Shared Benefits" platform to give a life-style cycle for the customers. With the implementation of these adjustments, the revenue from the direct e-commerce sales has decreased significantly by 61% as compared to prior year. Impairment testing for the long-term assets related to the e-commerce business was performed according to the requirement of IAS 36 with the recoverable amount lower than the carrying amount, where impairment loss in the amount of RMB366 million was recognized in the fiscal year ended 31 December 2017.

No external valuer was engaged to prepare the valuation report for the Tengda Business and the e-commerce business. The discount rate applied to the cash flow projections was 13.6%, which was by reference to the valuation of the other cash generating units in the Group.

(Loss)/profit before finance (costs)/income and tax

As a result of the increase in the abovementioned expenses on research and development and the non-operating expenses, the Group recorded a loss before finance (costs)/income and tax amounted to approximately RMB402 million, as compared with a profit of RMB161 million for the corresponding period last year.

Management Discussion and Analysis

Net finance (costs)/income

During the Reporting Period, the Group's net finance costs (finance income less finance costs) were approximately RMB397 million, substantially increased as compared with a net finance cost of RMB3 million in 2016, mainly due to the Group issued overseas bonds with an aggregate principal amount of US$500 million at 5.0% coupon rate and recorded the full amount of interest expenses for the period from January to December 2017 in relation to the corporate bonds with aggregate nominal value of RMB9,000 million issued in 2016 during the Reporting Period. As a result, the finance costs increased substantially from RMB235 million in the corresponding period last year to approximately RMB692 million.

(Loss)/profit before tax

As a result of the above factors, during the Reporting Period, the Group recorded a loss before tax of approximately RMB799 million, as compared with a profit before tax of RMB158 million in 2016.

Income tax expense

During the Reporting Period, the overall operating performance of the Group remained strong, the Group's income tax expense increased from RMB213 million in 2016 to approximately RMB329 million. The management considers the effective tax rate applied to the Group for the Reporting Period is reasonable.

(Loss)/profit for the year and (loss)/earnings per share attributable to owners of the parent

During the Reporting Period, the loss attributable to the owners of the parent was approximately RMB450 million as compared with a profit of RMB325 million for the corresponding period last year. As discussed above, if the non-operating items, among others, such as impairment of goodwill, impairment of property and equipment, fair value gains on equity investments, gains on derivative financial instruments, foreign exchange loss, income from compensation and interest expense on bonds payable are excluded, the profit of the Group would be approximately RMB531 million, increased by 24.36% as compared with RMB427 million in the corresponding period of last year.

During the Reporting Period, the Group's basic loss per share were RMB2.1 fen, as compared with basic earnings per share of RMB1.6 fen for the corresponding period last year.

Cash and cash equivalents

As at the end of the Reporting Period, cash and cash equivalents held by the Group were approximately RMB9,244 million, which were mainly denominated in Renminbi and the rest in US dollars, HK dollars and other currencies, and representing a decrease of 30.17% as compared with RMB13,237 million as at the end of 2016. The decrease was mainly attributable to the increase in the Group's investments during the year.

Inventories

As at the end of the Reporting Period, the Group's inventories amounted to approximately RMB11,255 million, representing a decrease of 3.02% as compared with RMB11,606 million as at the end of 2016. The inventory turnover period increased by 9 days from 60 days in 2016 to 69 days in 2017, and it is relatively stable as compared with 70 days in 2015.

Prepayments, deposits and other receivables

As at the end of the Reporting Period, prepayments, deposits and other receivables of the Group amounted to approximately RMB5,053 million, increased by 6.81% from RMB4,731 million as at the end of 2016.

Trade and bills payables

As at the end of the Reporting Period, trade and bills payables of the Group amounted to approximately RMB22,839 million, decreased by 4.43% from RMB23,898 million as at the end of 2016. Trade and bills payables turnover days were approximately 141 days, increased by 22 days from 119 days in 2016 and slightly increased by 8 days as compared with 133 days in 2015.

Capital expenditure

During the Reporting Period, the capital expenditure incurred by the Group amounted to approximately RMB1,039 million, representing a 2.16% increase as compared with RMB1,017 million in 2016. The capital expenditure during the year was mainly for opening of new stores, remodelling of stores, purchasing of an investment property and upgrading the information system by the Group.

Cash flows

During the Reporting Period, the Group's net cash flows used in operating activities amounted to approximately RMB1,156 million, as compared with net cash inflows of RMB2,685 million in 2016. The increase in cash outflows were mainly due to the increase in lease prepayments and deposits, decrease in trade and bills payables and decrease in amounts due to related companies.

Mainly due to the inclusion of purchases of property and equipment amounted to approximately RMB757 million, net proceeds used in the acquisition of 美信網絡技術有限公司 (Meixin Network Technology Company Limited, together with its subsidiaries, the "Meixin Group") amounted to approximately RMB876 million, net proceeds paid for the purchases of equity investments at fair value through profit and loss amounted to approximately RMB2,202 million and net proceeds paid for the purchases of available-for-sale investments amounted to approximately RMB1,186 million, the Group's net cash flows used in investing activities amounted to approximately RMB5,575 million, as compared with RMB1,454 million used in 2016.

The Group's net cash flows from financing activities amounted to approximately RMB2,816 million as compared with RMB4,501 million generated in 2016. The net cash inflows this year was mainly due to the issuance of overseas bonds by the Group with an aggregate nominal value of US$500 million.

Dividend and dividend policy

The Board does not recommend the payment of a final dividend so as to preserve capital for funding needs of the Group.

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

Contingent liabilities and capital commitment

At the end of the Reporting Period, the Group has no material contingent liabilities, but there were capital commitments of approximately RMB157 million.

Foreign currencies and treasury policy

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

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

Financial resources and gearing ratio

During the Reporting Period, the Group's working capital, capital expenditure and cash for investments were mainly funded from cash on hand, cash generated from operations, interest-bearing bank loans, loans due to related companies and bonds.

As at 31 December 2017, the total borrowings of the Group were the interest-bearing bank loans, loans due to related companies, the corporate bonds and the overseas bonds.

The current interest-bearing bank loans comprised:

(1) bank loans of US$153 million (equivalent to approximately RMB996 million) in aggregate, bearing interest at floating rates;

(2) a bank loan of JPY50 million (equivalent to approximately RMB3 million) bearing interest at a fixed rate; and

(3) a bank loan of EUR259 million (equivalent to approximately RMB2,026 million) bearing interest at floating rate;

The above interest-bearing bank loans were repayable within 1 year.

The non-current interest-bearing bank loan comprised:

A bank loan of approximately RMB97 million, bearing interest at floating rate and it was repayable beyond 5 years.

The loans due to related companies comprised:

Loans amounted to approximately RMB1,665 million in aggregate, bearing interest at a fixed rate, an amount of RMB47 million was repayable within 1 year and the remaining RMB1,618 million was repayable within 5 years.

The corporate bonds comprised:

(1) corporate bonds issued in 2016 with an aggregate nominal value of RMB5,000 million issued at fixed coupon rates ranged from 4.00% to 4.50% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rates and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the third year; and

(2) corporate bonds issued in 2016 with an aggregate nominal value of RMB4,000 million issued at a fixed coupon rate of 5.67% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rate and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the second and fourth year.

The overseas bonds comprised:

Bonds issued in 2017 with an aggregate principal amount of US$500 million and with 5% coupon rate due 2020.

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

As at 31 December 2017, the debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to approximately RMB16,903 million over total equity amounting to approximately RMB17,526 million, increased from 51.68% as at 31 December 2016 to 96.45%.

Charge on group assets

As at the end of 2017, the Group's bills payable and interest-bearing bank loans were secured by the Group's time deposits amounting to approximately RMB6,572 million, certain inventories with a carrying value of approximately RMB500 million and certain buildings and investment properties of the Group with a carrying value of approximately RMB1,882 million. The Group's bills payable and interest-bearing bank loans amounted to approximately RMB17,921 million in total.

OUTLOOK AND PROSPECTS

In the 30 years since it was established, GOME has utilized its retail channels to gain an advantage over its peers. Today, GOME's physical stores are expanding into the fourth- and fifth-tier cities. At the same time, GOME is exploring the development of various virtual stores and related businesses to cover both online and offline channels, to share GOME's supply chain and services, membership, merchandise and trading data, to build up GOME's advantage in channels of shared retail. Regarding the evolution of consumption, GOME plans to merge internet technology into its retail platform. Using the integrated "Home • Living" stores as the model, the Group will continue to experiment new kinds of stores, such as community stores and high-tech unmanned stores, featuring internet intelligent technology including self-service cashier and cloud inventory with millions of SKU, to realize online and offline empowerment, dynamic layout and to further expand the market.

Consumption Evolvement: expansion of "Home • Living", "Digital Stores" and "Networks"

In 2017, GOME built up a series of showcases around the "Home • Living" theme in stores and the growth of the home decoration business was a highlight. The home decoration business will be introduced to another 100 stores in 2018, which is expected to contribute significantly to the Group's revenue.

With the consumption upgrade in China, GOME will proactively adjust its presence nationwide. In the first- and second-tier cities, GOME will focus on the integrated experience in its stores, while continuing to explore the development of new kinds of stores such as smart community stores and unmanned stores equipped with cutting-edge technology.

In the fourth- and fifth-tier cities, GOME will take advantage of opportunities to extend its network of county stores, to form customer-oriented stores that combine sales, logistics and services, emphasizing the full cycle of pre-sales instructions and after-sales logistics. In the next three years, GOME plans to open 3,000 county stores, to fully cover the top 100 counties and other areas in China.

Internet Retail: GOME's Next Stop

Internet technology is vital in satisfying customer demands. GOME has the capability in the supply chain to cleverly select quality products, and will continue to enlarge the proportion of customized products in the future, to keep a higher level of consolidated gross margin in the industry.

Regarding data operation, GOME believes that the middle-end is the foundation to merge online and offline data. Therefore, the Group will use the internet to further merge data of membership, merchandise and transactions. Moreover, online virtual stores, namely, the application of GOME's new model of shared retail, which is a sharing platform based on the open supply chain and themed with social communication, received positive feedbacks. The launch of partner projects has also shown the benefits of sharing and increased traffic.

As for service, internet technology largely improved service and stimulated an increase in sales. Looking forward, GOME will continue to invest in internet technology, merge the offline experiences with online resources, open digital stores in all tiers of the market, further release the market potential and strive to be the model to follow in internet retail.

2017 HIGHLIGHTS OF THE YEAR

1 Jan

We Won Many Great Prizes

GOME "Future Space" documentary "Children of the Mountain"

GOME was awarded the "Charity Practice Award 2016" and "Charity Image Award 2016"

Can I lift your trophies?

- Innovative Value Award
- Best Value Award for Consumption Companies
- Best Investor Relationship Management Award

China's Top 100 Employers of the Year 2016

2016 Most Popular Employer among College Graduates in China

2017 China's the Most Promising New Financial Institution Award

The Fourteenth Best Employer of College Graduates in China

2 Feb

ME Talks : "TED of Home Appliances Industry" Officially Commenced

ME Talks disseminates authoritative, objective, and interesting cutting-edge scientific and technological information to the public through press conferences, forums, and multimedia transmission, developing TED of the home appliance industry.

In the same period, the Home Appliances Quality Life Magazine "Dianqizhi" (電氣志) was published, as well as the home appliance big data "Red Book" (紅寶書) "Just Flash You" (電你沒商量).

3 Mar

GOME's Black Friday: Achieving New Heights

The Third "GOME's Black Friday" Shopping Carnival.

Look How Cool We Are!

1-Hour for Earth: Public Welfare Activity

"Blue, Here We Come"

Ms. Du Juan from GOME Holdings Group joined many well-known entrepreneurs, celebrities, and caring people in China to call on the public to participate in the "1- Hour for Earth" event and to cheer for "Blue, Here We Come.

Our Advocacy:

"In our daily lives, let's turn off the lights whenever possible, save water as much as possible, classify our garbage, and use energy-saving appliances so that we can create a more beautiful world hand in hand and work together for 'Blue, Here We Come'!"

2017 Highlights of the Year

6 Jun

Renamed to "GOME Retail"

GOME is shifting from home appliances retailer to "Home • Living" integrated provider of services and products.

Watching Movie in VR — Professional VR Theater Built

By adopting 3D architectural printing technology and separating laser projection area with viewing area, GOME created a global professional interactive VR theater.

7 Jul

12 Delicious Countries — Culinary Delicacies Within Your Easy Reach

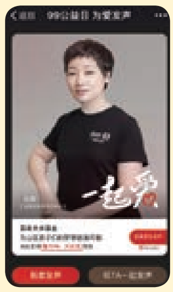
This is a delicacy video channel jointly initiated by GOME and several famous appliance manufacturers such as **Robam, Fotile, Midea**, and **Siemens**.

8 Aug

"iKongjian GOME Flagship Store" Established

GOME made a strategic investment in a home redecoration company – "iKongjian". "iKongjian GOME Flagship Store" was established in Beijing to provide consumers with integrated services of **"Home Appliances + Home Decoration + Household".**

GOME Public Welfare: Expression of Warmth



Ms. Du Juan from GOME Holdings Group, volunteered along with Yu Minhong, Wu Jing, Zhao Wei and other celebrities from all walks of life to express warmth to local population.

9 Sep

Top 500 Asian Brands

GOME was successfully selected into the **top 100** of the 2017 Top 500 Chinese Enterprises, moving up 13 positions as compared with the previous year. It once again topped the "Asian Top 500" list and won the "China Brand Innovative Enterprise of the Year" award (中國品牌年度創新企業).

GOME ranked sixth in the 2017 (23rd) Top 100 Most Valuable Brands of China Index and ranked **first** in the appliance retail industry for 11 consecutive years.

2017 Highlights of the Year

10 Oct

Sharing China's Experience at Asia-Pacific Retailers Convention & Exhibition

GOME was invited to share China's experience at the 18th Asia-Pacific Retail Convention & Exhibition (**18th APRCE 2017**) as a representative company of China's retail innovation and transformation.

Brand Building Exhibition

The First Forum and Exhibition on Brand Building and Management for Appliances and Consumer Electronics was opened. 51 global manufacturers of home appliances and consumer electronics have shared their experience in brand building and management.

GOME APP –The New Shared Retail Model

GOME developed and integrated core products such as "ME Shop", "Meixin", "Shopping Mall" and "Meimei" to establish a new shared retail model of "**Social + Business + Shared Benefits**".

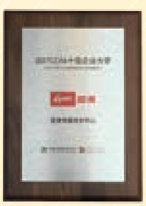
国美APP

11 Nov

2017 CCFA Awards

2017 CCFA Retail Innovation award (2017CCFA零售創新)

2017 CCFA China Employee's Favorite Chain Store Company award (2017CCFA中國連鎖業員工最喜愛公司)



2017 CCFA Top Ten Corporate Universities award
2017年CCFA十佳企業大學

11 Nov

Investment "Shifen Daojia" — Better Providing "Home Service"

GOME invested in Shifen Daojia, a national leading home appliance maintenance service provider and through complementing Shifen Daojia's advantages with that of "GOME House Manager", which boosted Home Service.

GOME's "Home • Living" Strategic Transformation

GOME will implement the "Home • Living" market extension strategy to create an all-in-one omni-channel shopping experience platform of "**Home Appliances+ Home Decoration + Household + Home Service**".

2018
GOME celebrated its 31st anniversary
What other surprises has GOME for everyone?
Just leave all the responsibility to GOME
Find more time to enjoy life
GOME opens up the new "Home Era"
Home Appliances Home Furnishing Home Service
Take you to experience quality home life
GOME: Better Lifestyle Through GOME
GOME 31st anniversary
For You For Home For Life

国美31年周年庆
享生活 尚国美

The Group has integrated and developed many virtual sales channels such as “ME Shop”, “Meixin”, “Shopping Mall” and “Meimei” under the shared retail model, which are connected to our advantages in platform, technology and supply chain and shared to all our users.

Directors and Senior Management Profile

CHAIRMAN

Mr. ZHANG Da Zhong

Mr. ZHANG Da Zhong, aged 69, has been the Chairman and non-executive Director of the Company since 10 March 2011. Mr. Zhang was the founder of Beijing Dazhong Home Appliances Retail Co., Ltd. one of the leading domestic appliances retail chains in Mainland China. Mr. Zhang sold all of his interests in Beijing Dazhong Home Appliances Retail Co., Ltd. in late 2007 and established Beijing Dazhong Investment Co. Ltd., a company that engages primarily in private equity investment in which he is currently the president. Mr. Zhang was honored as China's Outstanding Private Entrepreneur (中國優秀民營企業家) and Outstanding Builder of Chinese Featured Socialism (優秀中國特色社會主義事業建設者), and was a member of the 8th Chinese People's Political Consultative Conference of Beijing, a member of the standing committee for both the 9th and 10th Chinese People's Political Consultative Conference of Beijing and a member of the standing committee of the 13th Beijing People's Congress. Mr. Zhang is currently the deputy chairman of the Beijing Commerce Federation (北京市商會).

EXECUTIVE DIRECTOR

Mr. ZOU Xiao Chun

Mr. ZOU Xiao Chun, aged 48, has been an executive Director of the Company since 17 December 2010. Mr. Zou was the Vice President and the Senior Vice President of the Group from 17 December 2010 to 31 December 2013, mainly responsible for the Chinese legal and compliance matters and other deal-specific projects of the Group and is also a director of various subsidiaries of the Company.

Mr. Zou graduated from the Department of Law of Nanchang University (南昌大學法律專業專科) in June 1990 and obtained the Chinese Lawyers Qualification Certificate (中國律師資格證書) in August 1990. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate (中國稅務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) in October 1996. Mr. Zou was granted the Chinese Fund Practitioners Qualification Certificate in September 2015.

Mr. Zou practised as the lawyer and person-in-charge at Jiangxi Sui Long Law Firm (江西遂龍律師事務所) from June 1991. Since March 2000, Mr. Zou practised as the lawyer and a partner at Beijing Sinosource Law Firm (北京中潤律師事務所). In June 2006, Mr. Zou founded the Beijing John & Law Firm (北京市中逸律師事務所). From December 2008 to March 2011, Mr. Zou has been acting as the vice-chairman (deputy chairman) of Beijing Centergate Technologies (Holdings) Co., Limited (北京中關村科技發展(控股)股份有限公司) (a company listed on the Shenzhen Stock Exchange) and has been re-appointed as a director of the company since May 2012. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited (國美控股集團有限公司), which is owned or controlled by Mr. Wong Kwong Yu ("Mr. Wong"), the controlling shareholder of the Company, and was appointed as the vice chairman of GOME Telecom Equipment Co., Ltd (formerly known as "Sanlian Commercial Co., Ltd") (a company listed on the Shanghai Stock Exchange) between June 2011 and June 2014. Since March 2015, Mr. Zou was appointed as a non-executive director of Lajin Entertainment Network Group Limited (a company listed on the Hong Kong Stock Exchange).

In addition, Mr. Zou founded Jiandao Zhongchuang Investment Company Limited (簡道眾創投資股份有限公司) (the manager of a private equity investment fund in the PRC) and was the chairman of the company in August 2014, when he also founded the Beijing YiPing Capital Management Co., Limited (北京逸品資本管理有限公司) (the manager of a private security investment fund in the PRC) and was an executive director of the company. He has been the chairman of UoneNet Technology (Beijing) Co., Ltd. (優萬科技(北京)股份有限公司(a company listed on the New Third Board) since January 2016.

Mr. Zou has been a practising lawyer for almost 30 years in the PRC and has engaged in practised in areas relating to capital markets in the PRC and Hong Kong for almost 20 years. He has also founded a number of companies and invested in dozens of companies.

NON-EXECUTIVE DIRECTORS

Ms. HUANG Xiu Hong

Ms. HUANG Xiu Hong, aged 45, has been a non-executive Director of the Company since 24 June 2015. Ms. Huang has been working at GOME since 1991 and was appointed as the general manager in Eastern China Region since 2005; from February 2009 up to now, she has been the President of both the GOME Holding Group and Pengrun Holdings Limited (鵬潤控股有限公司). Ms. Huang has obtained her MBA degree from Helsinki School of Economics in 2005, and she is now pursuing further education in financial EMBA in Tsinghua University PBC School of Finance. In 2007, Ms. Huang was honored the Top Ten Outstanding Youth in Retail Industry of Shanghai and a torchbearer of the Beijing Olympic Games in 2008; in 2009, she received the nomination title of Outstanding Business Woman of China conferred by All-China Women's Federation together with China General Chamber of Commerce; from 2012 to 2015, she was consecutively awarded The Most Influential Business Woman in China. Besides, Ms. Huang was recognized as The Significant Contributor in Building National Corporation Culture in 2012, Person of Asia Brand of 2013, etc. Currently she serves as the deputy chairman of both China Enterprise Confederation and China General Chamber of Commerce as well as a council member of Beijing Federation of Industry & Commerce. Ms. Huang is a sister of Mr. Wong. Ms. Huang was the Acting Chairman of the Board of Beijing Centergate Technologies (Holding) Co., Ltd. (a company listed on Shenzhen Stock Exchange) from March 2014 to May 2014.

Mr. YU Sing Wong

Mr. YU Sing Wong, aged 66, has been a non-executive Director of the Company since 24 June 2015. Mr. Yu has been the president of No. 9 Real Estate Company Limited (玖號置業有限公司) under GOME Holding Group (國美控股集團) since 2013, primarily responsible for the development and construction of No. 9 Shopping Plaza (玖號購物廣場) in Xiangjiang, Changsha, Hunan. From 2003 to 2012, Mr. Yu was the president of Beijing Xinhengji Investment and Management Group (北京新恒基投資管理集團), mainly in charge of the development and construction of the Xinhengji First City Project (新恒基第一城項目) in Shenyang, with an area of 1,000,000 square meters. From 2000 to 2002, he served as the general manager of Beijing Pengrun Real Estate Development Company Limited (北京鵬潤房地產開發有限公司), responsible for the development and construction of the Pengrun Garden Project (鵬潤家園項目). From 1992 to 2000, he was the vice president of Xinhengji Real Estate Development Company Limited (新恒基房地產開發有限公司), responsible for the development and construction of various projects, such as Xinhengji International Building (新恒基國際大廈), Pengrun Building (鵬潤大廈) and Jing An Centre (靜安中心). Before that, Mr. Yu was an assistant manager of a materials company in Luohu, Shenzhen from 1984 to 1991 and was a cadre of the office of machine tool station of the Ministry of First Machinery Industry (第一機械工業部機床總站) from 1973 to 1984.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Kong Wai, Conway

Mr. LEE Kong Wai, Conway, aged 63, has been an independent non-executive Director of the Company since 10 March 2011. Mr. Lee received a bachelor's degree in arts from the Kingston University (formerly known as the Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from the Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young for 29 years until 2009 and had held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia and New Zealand, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants.

Mr. Lee has been an independent non-executive director of Chaowei Power Holdings Limited, West China Cement Limited, China Modern Dairy Holdings Limited, Tibet 5100 Water Resources Holdings Ltd., NVC Lighting Holding Limited, Yashili International Holdings Limited, GCL New Energy Holdings Limited, WH Group Limited, China Rundong Auto Group Limited (all being companies listed on the Hong Kong Stock Exchange) and Guotai Junan Securities Limited (being a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since June 2010, July 2010, October 2010, March 2011, November 2012, November 2013, May 2014, August 2014, August 2014 and April 2017, respectively. Moreover, Mr. Lee was a non-executive director and the deputy chairman of Merry Garden Holdings Limited (a company listed on the Hong Kong Stock Exchange) from July 2014 to September 2015. Mr. Lee was an independent non-executive director of Sino Vanadium Inc. (a company listed on the TSX Venture Exchange in Canada), China Taiping Insurance Holdings Company Limited (a company listed on the Hong Kong Stock Exchange) and CITIC Securities Company Limited (a company listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange) from October 2009 to December 2011, from October 2009 to August 2013 and from August 2011 to May 2016, respectively. Mr. Lee has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China from 2007 to 31 December 2017.

Directors and Senior Management Profile

Ms. LIU Hong Yu

Ms. LIU Hong Yu, aged 54, has been an independent non-executive Director of the Company since 10 June 2013. Ms. Liu is a Chinese practising lawyer. Ms. Liu is the founding partner of Beijing Jincheng Tongda and Neal. Prior to that, Ms. Liu was the managing partner of Beijing Tongda Law Offices between April 1993 and April 2004, the legal adviser to Agricultural Bank of China (Beijing Branch) between May 1988 and April 1993 and a cadre of the People's Bank of China (Sichuan Province) between July 1985 and May 1988.

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

Ms. Liu was a member of the National Committee of the 11th, 12th Chinese People's Political Consultative Conference and a deputy to the 12th, 13th and 14th Beijing Municipal People's Congress, and is currently a member of the National Committee of the 13th Chinese People's Political Consultative Conference, a deputy to the 15th Beijing Municipal People's Congress and an executive member of the executive committee to the 11th China Feminine Congress. Ms. Liu is also a member of the 9th All-China Youth Federation, an executive member of the All China Female Lawyers Association and a legal consultancy expert of the Beijing Municipal Commission of Development and Reform.

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

Mr. WANG Gao

Mr. WANG Gao, aged 52, has been an independent non-executive Director of the Company since 24 June 2015. Mr. Wang was appointed as the professor of marketing and the associate dean (Trainings for Senior Managers) in China Europe International Business School and the joint director of The Research Center of Globalization of China Enterprises (中國企業全球化研究中心) since 2009. From 2002 to 2008, Mr. Wang was the associate professor and the deputy of the Marketing Department under School of Economics and Management of Tsinghua University; from 2001 to 2002, he was the manager of Strategy and Analysis Department of Minute Maid Branch (美之源分公司) under the Coca-Cola Company in Houston of the United States; from 1998 to 2001, he served as the senior consultant of The Information Resources Limited of the United States (美國信息資源有限公司) in Chicago. Mr. Wang acquired his bachelor degree in Demography from Renmin University of China in 1988, and he obtained his Master of Social Science and Doctor of Sociology both from Yale University in 1994 and 1998, respectively. Mr. Wang is an independent director of Anhui Gujing Distillery Company Limited (a company listed on the Shenzhen Stock Exchange) since June 2014.

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

SENIOR MANAGEMENT

Mr. WANG Jun Zhou, aged 56, has been the President of the Group since 28 June 2010. He is also a director of various subsidiaries of the Company. Mr. Wang was the Executive Vice President of the Group during the period from November 2006 to June 2010 and an executive Director of the Company between December 2008 and June 2011. Mr. Wang is responsible for the overall management of daily operations, including the formulation of the Group's medium and long-term strategic plans and annual budgets as well as standardisation of various systems, processes and authorisations for the Group. Mr. Wang also assists in providing guidance and monitoring to the daily operations in each major region and each division of the Group as well as appraising and reviewing business management teams at all levels. Mr. Wang has over 10 years of experience in the sale and management of electrical appliances. Mr. Wang joined the Group in 2001 and previously held positions as general manager of the operations centre, general manager of the Southern China Region and general manager of the strategic and cooperation centre of the Group. In November 2014, Mr. Wang was awarded the China Chain Store & Franchise Association: Retail Person of the Year for 2014 (CCFA2014中國連鎖年度人物大獎) by the 16th China Retail Industry Convention. In July 2015, Mr. Wang was elected as the 10th Retail Person of the Year for 2014-2015, an award recognizing his contribution in leading the transformation and innovation of the Company for outstanding business results and substantial progress in 2014. In October 2015, Mr. Wang was awarded the title of Outstanding Person on Home Appliance for the Thirty Years in China (中國家電30年功勳人物獎) by China Household Electrical Appliances Association. In 2017, Mr. Wang was awarded Outstanding Industry Leader of the Year (年度最具行業領導力人物獎) by China Internet Weekly.

Mr. FANG Wei, aged 46, has been re-designated as the Chief Financial Officer of the Group since September 2011. He is also a director of certain subsidiaries of the Company. Mr. Fang is responsible for the overall planning and implementation of the Group's financial management as well as the Internet business operations of the Group. Mr. Fang also participates in major decision making in relation to the investment, financing and operations of the Group. Mr. Fang is a graduate of the accounting faculty of Central University of Finance and Economics (中央財經大學會計系) and a holder of a master degree in management. He is qualified as a senior accountant and senior economist in China. He is also a fellow member of the Chartered Global Management Accountant (CGMA) association and a fellow member of Institute of Public Accountants (FIPA) of Australia. Mr. Fang joined the Group in January 2005, had held positions as assistant director and the director of the finance centre of the Group, and was granted the Special Contribution Award for Year 2011 and Contribution in Supporting New Business Award by the Group. Mr. Fang was named as the Talented Youth of Retail Sector in China for Year 2008 (2008年度中國零售業青年英才), Ten High-Profile Persons in Cash Management for Year 2012 (2012年現金管理十佳風雲人物), China's Top 10 Outstanding CFO of 2014 (2014年度中國十大傑出CFO), 2015 Finance Leader (2015年度財界領袖), 2015 Outstanding Global Finance Leader in China (2015年度中國國際財務卓越CFO人才獎), China Annual Figure as CFO in 2015 (2015中國CFO年度人物), Intelligent and Innovative Global Finance in China in 2017 – Outstanding Leader (2017年度中國國際財務智能化創新 — 卓越領航者) and Golden Horse Award of E-commerce Pioneer in China in 2017 (2017中國電子商務導師金馬獎), among others, due to his performance in financial management. Meanwhile, the team and projects led by Mr. Fang also received numerous awards, including the China Chamber of Commerce Science and Technology Award – Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎特等獎) for the ERP project under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程) with him being a core ERP project team leading member of GOME; as well as team awards including the Best Investor Relations Management Listed Company of the 2014 China Securities Golden Bauhinia Awards (2014中國證券金紫荊獎 — 最佳投資者關係管理上市公司大獎), the Best Investor Relations Award for 2014 and 2015 by Hong Kong Investor Relations Association, Best Investor Relations Management at the China Golden Hong Kong Securities Awards in 2016, the 2016 Best Practice of Shared Service Centre of the Year by CGMA, Best Investor Relationship – Meeting (最佳投資者關係會議獎) by Hong Kong Investor Association, Best Team of Intelligent and Innovative Global Finance in China in 2017 (2017年度中國國際財務智能化創新最佳團隊) by Chinese CFO Development Centre and Best Accounting Management in Practice in 2017 (2017年度優秀管理會計實踐) by CGMA in 2017. Mr. Fang is currently the chairman of the supervisory committee of GOME Telecom Equipment Co., Ltd (formerly known as Sanlian Commercial Co., Ltd) (a company listed on the Shanghai Stock Exchange).

Directors and Senior Management Profile

Ms. WEI Qiu Li, aged 50, Joined GOME in 2000. Ms. Wei had been the Vice President of the Group since November 2006 and was an executive Director of the Company between January 2009 and June 2011. Ms. Wei was appointed as the senior vice president of the Group in 2012 and is mainly responsible for the medium-to long-term strategic planning, standardisation of various policies, systems and authorisations, organisational structure designing as well as planning and implementation of human resources training of the Group. Ms. Wei has over 10 years of experience in human resources and administrative management. Ms. Wei obtained an Executive MBA (EMBA) from the China Europe International Business School (中歐國際工商學院) in 2013.

Mr. LI Jun Tao, aged 52, has been appointed as the Senior Vice President of the Group since March 2012. He is currently the Senior Vice President of GOME retail sector and is responsible for the operating system of the retail segment. Mr. Li has also been the CEO of GOME-on-line and the president of the R&D Smart Manufacturing segment. Mr. Li has assumed senior management roles in areas such as municipal, provincial, business and operation sectors of the Group and has extensive experience in the establishment, development and extension of the supply chain of the Group's online and offline businesses. He was awarded Top Ten Marketing Persons (十大營銷人物) organized by Southern Metropolis Daily in 2015. Mr. Li graduated from China Europe International Business School (中歐國際工商學院) with Executive MBA (EMBA).

Mr. HE Yang Qing, aged 55, has been the Senior Vice President of the Group since the end of 2012, mainly responsible for operations. Mr. He joined the Group in 2003 and had previously been in charge of the operation and management of the operation system and brand centres, including the first- and second-tier market operation centre, store network development centre, customer service centre and information centre, as well as serving as the COO of GOME-on-line. From June 2014 to June 2017, Mr. He has been a director and the chairman of the board of GOME Telecom Equipment Co., Ltd (formerly known as Sanlian Commercial Co., Ltd) (a company listed on the Shanghai Stock Exchange). Mr. He has over 20 years of extensive and solid experience in the retail and manufacture of home electrical appliances.

Mr. LV Yi Fan, aged 57, has been re-designated as the Vice President of the Group since March 2012, responsible for information technology system. Mr. Lv joined the Group in 2007, and held the position of director of information technology centre. The team and projects led by Mr. Lv also received numerous awards, including the China Chamber of Commerce Science and Technology Award – Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎特等獎) for the ERP project under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程) with him being a core ERP project team leading member of GOME. Under the leadership of Mr. Lv, the working team continued to optimize the information systems of the Group between 2013 and 2015. In 2016, the Research and Development Centre (Chengdu) and Chengdu GOME Big Data Technology Co., Ltd. (成都國美大數據科技有限公司) was established and put into operation, marking the gradual realization of independent research and development of information and foreign product services. In addition, the team led by Mr. Lv received the Innovation Award and the 2016 Outstanding Contribution Award from the Group. In the same year, the Group obtained 136 software copyright certificates with independent intellectual property rights with Mr. Lv's assistance. Mr. Lv graduated from the Business Administration Faculty of Capital University of Economics and Business (首都經濟貿易大學). He has a master degree in management and the technical title of senior engineer.

Mr. MA Hai Lin, aged 49, was appointed as the senior vice president of the Group in 2017 and is currently mainly responsible for the overall management of GOME's online and offline operating system, including the operation of offline stores and the online stores, promotion of products with higher profit margin, development of store network, management of members, design and decoration of the stores and R&D of new retail stores. Mr. Ma joined the Group in 2007 and was the operating director of Northern China Region, director of store operating centre and general manager of Dalian branch of the Group prior to the re-designation. Mr. Ma has over 20 years of experience in China and foreign retail industry, over which he possesses a keen observation and perspectiveness ability over the retail industry. Mr. Ma graduated from Beijing Normal University (北京師範大學) in 1991.

Report of the Directors

The board of directors (the “Directors”) of the Company (the “Board”) have pleasure in submitting its report and the audited financial statements of GOME Retail Holdings Limited (the “Company“) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the operation and management of networks of retail stores for electrical appliances and consumer electronic products and online sale of electronic products in China. The Group’s revenue is mainly derived from business activities in the Mainland China. An analysis of the Group’s income for the year is set out in note 6 to the financial statements on page 136.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss on page 81 and Consolidated Statement of Comprehensive Income on page 82.

The state of affairs of the Group as at 31 December 2017 is set out in the Consolidated Statement of Financial Position on pages 83 to 84.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 87 to 88.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 33 to the financial statements on page 170.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend so as to preserve capital for the funding needs of the Group.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in due course.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out in note 46 to the financial statements on page 195 and in the Consolidated Statement of Changes in Equity on pages 85 to 86.

As at 31 December 2017, the Company has a negative reserve of RMB424,594,000 available for distribution to the shareholders of the Company (2016: a reserve of RMB174,550,000) of which no final dividend has been recommended for the year.

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR SUPPLIERS AND CUSTOMERS

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

– the largest supplier	9.96%
– five largest suppliers combined	46.13%

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

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

DONATIONS

During the year, the Group has made charitable and other donations in Hong Kong and China totaling RMB112,000.

DIRECTORS

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

Executive Director

Mr. ZOU Xiao Chun

Non-Executive Directors

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

Independent Non-Executive Directors

Mr. LEE Kong Wai, Conway
Ms. LIU Hong Yu
Mr. WANG Gao
Mr. NG Wai Hung (retired on 26 May 2017)

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions which are disclosed in notes 25 and 41 to the financial statements on pages 162 to 163, and pages 179 to 182 respectively and in the section headed "Connected Transactions" hereinbelow, there were no contracts of significance, to which any member of the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

On 31 March 2016, the Company completed the acquisition of Artway Development Limited ("Artway", together with its subsidiaries, the "Artway Group"). The Artway Group was previously ultimately owned by Mr. Wong Kwong Yu ("Mr. Wong") and operates an electrical appliances and consumer electronic products retail network under the trademark of "GOME Electrical Appliances", and related operation, (formerly referred to as the "Non-listed GOME Group"), mainly in cities other than the designated cities of the PRC in which the Group already had operations. Upon completion of the acquisition, the operations of Non-listed GOME Group had been combined with the operations of the Group. Accordingly, the Board considers that there is no longer any competition between the Group and Mr. Wong and his associates in the retail business of electrical appliances and consumer electronic products under the "GOME" brand name.

During the year and upon completion of the acquisition of the Artway Group, Mr. Wong and his associates remained interested in 40% of 國美在線電子商務有限公司 ("GOME-on-line e-Commerce., Ltd" or "GOME-on-line"), a 60% non-wholly owned subsidiary of the Group. Since May 2012, the Group has operated GOME-on-line with no geographical restrictions.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

Name of Director/ Chief Executive	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Huang Xiu Hong *(Note 1)*	–	–	164,802,270	–	164,802,270	0.76

Note:

1. Ms. Huang Xiu Hong is the sister of Mr. Wong, the controlling shareholder of the Company. Please refer to the paragraph headed "Interests and short positions of substantial shareholders" for the interests of Mr. Wong in the Company.

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

Save as disclosed above, as at 31 December 2017, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the annual general meeting of the Company held on 15 April 2005, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the Board may grant share options (the "Options") to subscribe for shares of the Company (the "Shares") to employees, executives and officers of the Group and such other persons as referred to in the Share Option Scheme whom the Board considers will contribute or have contributed to the Group (the "Participants") to provide them with incentives and rewards for their contribution to the Group. On 7 July 2009, Options to subscribe for an aggregate of 383,000,000 Shares had been granted pursuant to the Share Option Scheme. The Share Option Scheme has expired on 14 April 2015 and all Options that have been granted before the expiry date but not yet exercised have lapsed on 15 November 2017. Save for the Share Option Scheme, the Company has no other share option scheme.

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

SHARE OPTION SCHEME

The Share Option Scheme has expired on 14 April 2015. As at 31 December 2017, all outstanding Options to subscribe for Shares granted before the expiry date pursuant to the Share Option Scheme have lapsed. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per Share *HK$*	Number of Options: As at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2017 *(Note 1)*	Price of Shares for Options exercised during the year *(Note 5)* *HK$*
Chief Executive								
Wang Jun Zhou	7 July 2009	1.90	**10,187,000**	–	–	(10,187,000)	**–**	–
Other employees	7 July 2009	1.90	**69,358,000**	–	–	(69,358,000)	**–**	–
Total			**79,545,000**	–	–	*(Note 4)* (79,545,000)	**–**	

Notes:

1. On 5 December 2011, a resolution was passed by the shareholders of the Company to amend the terms of the Options granted and the terms of the Share Option Scheme. On 31 August 2012, 23 June 2015 and 11 November 2016 resolutions were passed by the Board to further amend the terms of the Options granted. As at 31 December 2017, the revised terms would have the following effects:

    a. All vested Options have lapsed and ceased to have any further effect on 15 November 2017.

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

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

3. As at 31 December 2017, all the Options granted have been vested and lapsed.

4. 79,545,000 Options have lapsed during the year ended 31 December 2017.

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

RESTRICTED SHARE AWARD SCHEME

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

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

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

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

As at 31 December 2017, a sum of approximately HK$471,727,000 (excluding transaction costs) has been used to acquire 488,153,000 Shares from the market by the independent trustee. Up to the date of this report, 243,887,000 Shares have been granted to the participants of the Group under the Share Award Scheme.

Details of the Share Award Scheme are set out in the announcement of the Company dated 3 October 2016 and 6 October 2017 and note 35 to the financial statements on pages 172 to 173.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and so far as is known to any Director or Chief Executive, as at 31 December 2017, other than the Directors or the Chief Executive as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Nature	Number of ordinary Shares held	Approximate % of shareholding
Mr. Wong *(Note 1)*	Interest in controlled corporation	10,835,703,338	50.26
Ms. Du Juan *(Note 2)*	Interest in controlled corporation	10,835,703,338	50.26
Ever Ocean Investments Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
GOME Holdings Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
Power Charm Holdings Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
GOME Home Appliances (H.K.) Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
GOME Management Limited *(Note 3)*	Beneficial owner	5,500,000,000	25.51
Shinning Crown Holdings Inc. *(Note 4)*	Beneficial owner	4,454,979,938	20.67

Notes:

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

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

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

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

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2017 are set out in note 1 to the financial statements on pages 89 to 103.

CONNECTED TRANSACTIONS

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

(1) The Master Merchandise Purchase Agreement

On 25 January 2016, 國美電器有限公司 ("GOME Appliance Company Limited" or "GOME Appliance") (being an indirectly wholly-owned subsidiary of the Company), 國美在線電子商務有限公司 ("GOME-on-line e-Commerce Co., Ltd." or "GOME-on-line") (a company with 60% equity interest held by the Group and the remaining 40% equity interest held by GOME Ruidong (as defined below) and thus is a connected person of the Company), 國美電器零售有限公司 ("GOME Electrical Appliances Retail Co., Ltd." or "GOME Retail") and 北京國美鋭動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong") (Companies being indirectly owned by Mr. Wong and his associates and thus are connected persons of the Company) entered into the 2016 Master Merchandise Purchase Agreement, pursuant to which GOME Retail and GOME Ruidong agreed to, and will procure other members of the Parent Group (a group of companies (other than the Group) controlled or more than 50% owned by Mr. Wong and his associates and principally engaged in retail business.) to, at the request of GOME Appliance or GOME-on-line from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronic products) to GOME Appliance or GOME-on-line on an at-cost basis for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively. The resolutions in relation to the 2016 Master Merchandise Purchase Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 29 February 2016. During the year, the total transaction amounts under the 2016 Master Merchandise Purchase Agreement was approximately RMB1,140.31 million.

(2) The Master Merchandise Supply Agreement

On 25 January 2016, GOME Appliance, GOME-on-line, GOME Retail and GOME Ruidong entered into the 2016 Master Merchandise Supply Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line, GOME Retail or GOME Ruidong from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronic products) to GOME-on-line, GOME Retail or GOME Ruidong on an at-cost basis for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively. The resolutions in relation to the 2016 Master Merchandise Supply Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 29 February 2016. During the year, the total transaction amounts under the 2016 Master Merchandise Supply Agreement was approximately RMB6,767.80 million.

(3) The First Logistics Services Agreement

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

(4) The Second Logistics Services Agreement

On 30 December 2015, GOME Ruidong, 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), (a company indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), GOME Appliance and GOME-on-line entered into the 2016 Second Logistics Services Agreement, pursuant to which GOME Ruidong and Anxun Logistics agreed to, and will procure other members of the Parent Group to, at the request of GOME-on-line and GOME Appliance from time to time, provide logistics services (including delivery of general merchandise to end customers of GOME-on-line and retail stores of GOME Appliance) for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amounts under the 2016 Second Logistics Services Agreement was approximately RMB601.27 million.

(5) The First Warehouse Services Agreement

On 30 December 2015, GOME Appliance, GOME-on-line and GOME Retail entered into the 2016 First Warehouse Services Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line and GOME Retail from time to time, provide warehousing services (including storage of general merchandise) to GOME-on-line and GOME Retail for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amounts under the 2016 First Warehouse Services Agreement was approximately RMB53.31 million.

(6) The Second Warehouse Services Agreement

On 30 December 2015, GOME Retail, GOME-on-line and GOME Appliance entered into the 2016 Second Warehouse Services Agreement, pursuant to which GOME Retail agreed to, and will procure other members of the Parent Group to, at the request of GOME-on-line and GOME Appliance from time to time, provide warehousing services (including storage of general merchandise) to GOME-on-line and GOME Appliance for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ending 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amounts under the 2016 Second Warehouse Services Agreement was approximately RMB16.73 million.

(7) The First After-Sales Services Agreement

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

(8) The Second After-Sales Services Agreement

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

(9) Lease Agreements

On 20 December 2016, the Group entered into the 2017 Pengrun Lease Agreement with 國美地產控股有限公司("GOME Property Co., Ltd." or "GOME Property") (a company being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), to lease certain properties located at No. 26, Xiaoyun Road, Chaoyang District, Beijing (the "Pengrun Building") as the office of the Group in Beijing, for a term of 6 years commencing on 1 January 2017 and ending on 31 December 2022. The maximum annual cap for the rent (including management fee) payable (before the 10% discount) by the Group under the 2017 Pengrun Lease Agreement is approximately RMB186.15 million. During the year, the total rental expense under the 2017 Pengrun Lease Agreement was approximately RMB148.74 million.

On 1 October 2016, 15 September 2016 and 30 November 2017, the Group entered into several lease agreements with 北京新恒基房地產集團有限公司 ("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji") (a company majority owned by an associate of Mr. Wong and hence a connected person of the Company), to lease certain office units at the Pengrun Building for terms up to 9 December 2018, 19 December 2018 and 24 September 2019, respectively. The total annual caps for the rent (including management fee) payable by the Group under these agreements for the three financial years ending 31 December 2017, 2018 and 2019 are RMB39.31 million, RMB48.56 million and RMB18.99 million, respectively. During the year, the total rental expense under these lease agreements was approximately RMB37.03 million.

On 20 December 2016, the Group entered into the 2017 Xibahe Lease Agreement with 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") (a company being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), to lease the property located at No. A7, North Lane, Xibahe, Chaoyang District, Beijing (the "Xibahe Property") for use as a retail store of the Group. The 2017 Xibahe Lease Agreement has expired on 31 December 2017. The annual cap of rent payable by the Group for the year ended 31 December 2017 is approximately RMB16.10 million. During the year, the total rental expense under the 2017 Xibahe Lease Agreement was approximately RMB15.33 million.

On 20 December 2017, the Group entered into the 2018 Xibahe Lease Agreement with Beijing GOME to renew the 2017 Xibahe Lease Agreement for a term of 1 year commencing from 1 January 2018 to 31 December 2018. The annual cap of rent payable by the Group for the year ending 31 December 2018 is approximately RMB16.10 million.

All independent non-executive Directors have reviewed the continuing connected transactions as set out in paragraphs (1) to (9) above (collectively, the "Continuing Connected Transactions") and confirmed that they were entered into:

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

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

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

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

1. have been approved by the Board;

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

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

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

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2017, the Group employed a total of 40,176 employees. The Group recruits and promotes individuals based on merit and their development potentials. The remuneration package inclusive of bonus and share option scheme offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

PENSION SCHEME

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

COMMITMENTS

Details of commitments are set out in note 40 to the financial statements on pages 177 to 178.

INDEPENDENCE CONFIRMATION

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 63 to 75.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 44 to the financial statements on page 188.

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

During the year ended 31 December 2017, the Company repurchased an aggregate of 409,838,000 Shares on the Stock Exchange, details of which are as follows:

Month/Year	Number of Shares (HK$0.025 each in the share capital of the Company) repurchased	Highest price per Share *HK$*	Lowest price per Share *HK$*	Aggregate consideration (excluding expenses) *HK$*
March 2017	91,000,000	1.05	1.02	94,590,940
April 2017	218,838,000	1.09	1.04	233,834,940
September 2017	100,000,000	0.85	0.81	82,452,000
	409,838,000			410,877,880

The Shares repurchased during the year ended 31 December 2017 were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value thereof.

During the year ended 31 December 2017, the Company issued overseas bonds with an aggregate principal amount of US$500,000,000 at a fixed coupon rate of 5.0% due 10 March 2020. The overseas bonds are listed on the Singapore Exchange Securities Trading Limited.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2017.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

On 31 March 2016, the Company issued 2.5 billion warrants (the "Warrants") as part of the consideration to acquire the Artway Group. Pursuant to the acquisition agreement and the supplemental agreement, the Warrants are exercisable to subscribe for an aggregate of 2.5 billion Shares at an initial exercise price of HK$2.15 per share at any time prior to the second anniversary of the Issue Date. The exercise price of the Warrants is subject to adjustment in accordance with the terms and conditions upon the occurrence of certain events including, among other things, subdivision or consolidation of shares, the making of a free distribution of shares, bonus issue, the declaration of a dividend in shares, capital distribution, issuance of options, rights or other warrants, and other dilutive events such as issue of new shares. As of 31 December 2017, no warrant was exercised by the warrant holder.

Save as disclosed above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2017.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

There were no information required for disclosure by the Company under Rule 13.20 of the Listing Rules during the year ended 31 December 2017.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 45 to the financial statements on page 193.

FIVE YEARS FINANCIAL SUMMARY

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

RISK FACTORS

Details of the risks associated with the operation of the Group are set out in the risk factors section on pages 60 to 62.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Environmental Protection

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

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

Compliance with Laws and Regulations

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

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

Workplace Quality

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

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

Health and Safety

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

Training and Development

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

Commitment to Quality

The Group has made relentless efforts in delivering premium products and highly tailored services. Looking forward to 2018, the Company will continue with its research and innovation to enrich the Group's products.

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

Management of Supply Chain

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

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

On behalf of the Board

Zhang Da Zhong
Chairman

Hong Kong, 27 March 2018

Risk Factors

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

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Economic conditions

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

Credit terms

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

Terms of the supply agreements

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

Reliance on key management personnel

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

Location of outlets and lease renewal

One of the key factors in the success of the Group is its ability to establish its retail outlets at suitable and convenient locations where there is high pedestrian traffic and good accessibility (whether by public transportation or other means). During the year ended 31 December 2017, most of the retail outlets leased by the Group were with a term of 5 to 10 years. Given the scarcity of retail premises at these suitable and convenient locations, there is no assurance that the Group will be able to find premises suitable for its retail operations or to lease them on commercially acceptable terms. In the event that there is any material difficulty in finding retail premises at suitable locations or securing the leasing of such premises on commercially acceptable terms, the Group's expansion plans and business performance may be adversely affected.

Intensified competition between traditional retailers and online retailers

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

The operation of the ERP information management system

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

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

RISKS ASSOCIATED WITH THE PRC

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

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

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

Changes in foreign exchange regulations and fluctuation of RMB

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

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to upholding good corporate governance practices. For the year ended 31 December 2017, the Company was in compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2017.

BOARD OF DIRECTORS

Board composition

During the year ended 31 December 2017 and up to the date of issue of this Annual Report, the Board comprises the following executive Director, non-executive Directors and independent non-executive Directors:

Mr. Zhang Da Zhong	*(Non-executive Director and Chairman)*
Mr. Zou Xiao Chun	*(Executive Director)*
Ms. Huang Xiu Hong	*(Non-executive Director)*
Mr. Yu Sing Wong	*(Non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Ms. Liu Hong Yu	*(Independent non-executive Director)*
Mr. Wang Gao	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (retired with effect from 26 May 2017)*

The biographical details of the current Board members are set out on pages 38 to 42 of this Annual Report.

Each of Mr. Yu Sing Wong, being a non-executive Director, Ms. Liu Hong Yu and Mr. Wang Gao, both being an independent non-executive Director, was re-elected at the 2017 Annual General Meeting of the Company with a specific term of 3 years from 26 May 2017. Each of Mr. Zou Xiao Chun, being an executive Director, Mr. Zhang Da Zhong, being a non-executive Director, Mr. Lee Kong Wai, Conway, being an independent non-executive Director, was re-elected at the 2016 Annual General Meeting of the Company with a specific term of 3 years from 22 June 2016. Ms. Huang Xiu Hong, being a non-executive Director, was appointed at the 2015 Annual General Meeting of the Company with a specific term of 3 years from 24 June 2015. The Board has confirmed with each of the independent non-executive Director as to his/her independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

Roles and functions

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

Board meetings and general meetings

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2017, 10 Board meetings (including 4 regular Board meetings) and 2 general meetings of the Company were held. Details of the Directors' attendance records during the year are as follows:

Directors	Special General Meetings held on 12 June 2017 Attendance	Annual General Meeting held on 26 May 2017 Attendance	Board Meeting Attendance
Mr. Zhang Da Zhong	1/1	1/1	10/10 (4/4)*
Mr. Zou Xiao Chun	1/1	1/1	10/10 (4/4)*
Ms. Huang Xiu Hong	1/1	1/1	10/10 (4/4)*
Mr. Yu Sing Wong	1/1	1/1	10/10 (4/4)*
Mr. Lee Kong Wai, Conway	1/1	1/1	10/10 (4/4)*
Ms. Liu Hong Yu	1/1	1/1	10/10 (4/4)*
Mr. Wang Gao	1/1	1/1	10/10 (4/4)*
Mr. Ng Wai Hung**	0/1	1/1	5/10 (2/4)*

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

** *As disclosed in the announcement of the Company dated 26 May 2017, Mr. Ng Wai Hung retired as an independent non-executive Director. Therefore, he did not attend the special general meeting and Board meetings held subsequently.*

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Directors' Trainings

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

1. Annual in-house training conducted by external auditor and external counsel in December 2017 on, among others, updates on the accounting standards, Training on Capital Raisings by Listed Issuers and Corporate Governance Code for 2 hours (the "Annual In-house Training").

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

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

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

Names of Directors		Details of trainings
Mr. Zhang Da Zhong	–	Attended the Annual In-house Training.
Mr. Zou Xiao Chun	–	Attended the Annual In-house Training.
Ms. Huang Xiu Hong	–	Attended the Annual In-house Training.
Mr. Yu Sing Wong	–	Attended the Annual In-house Training.
Mr. Lee Kong Wai, Conway	–	Attended the Annual In-house Training.
	–	Attended the training on Connected Transactions organized by Kirkland & Ellis for 1 hour in May 2017.
	–	Attend the training on 2017 H-share Regulatory Trends organized by Freshfields for 2 hours in August 2017.
	–	Attended the INED Training Course organized by Shanghai Stock Exchange for 32 hours in October to November 2017.
	–	Attended the training on Director's Responsibilities organized by Paul Hastings for 1 hour in December 2017.
Ms. Liu Hong Yu	–	Attended the Annual In-house Training.
Mr. Wang Gao	–	Attended the Annual In-house Training.
Mr. Ng Wai Hung*	–	None.

* *As disclosed in the announcement of the Company dated 26 May 2017, Mr. Ng Wai Hung retired as an independent non-executive Director. Therefore, he did not attend the Annual In-house Training held subsequently.*

BOARD COMMITTEES

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

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

Remuneration Committee

The Remuneration Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph B.1.2 of the CG Code. During the year ended 31 December 2017, a majority of the members of the Remuneration Committee are independent non-executive Directors and the Remuneration Committee comprised the following members:

Mr. Lee Kong Wai, Conway	*(Independent non-executive Director and the chairman of the Remuneration Committee) (appointed as the the chairman with effect from 26 May 2017)*
Ms. Liu Hong Yu	*(Independent non-executive Director)*
Mr. Zou Xiao Chun	*(Executive Director)*
Ms. Huang Xiu Hong	*(Non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (retired with effect from 26 May 2017)*

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

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

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

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

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

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

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

The Remuneration Committee shall meet at least once each year. During the year ended 31 December 2017, the Remuneration Committee, among other matters, approved and recommended the terms and remunerations of the non-executive Director and the independent non-executive Directors for re-election.

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

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

Nomination Committee

The Nomination Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph A.5.2 of the CG Code. During the year ended 31 December 2017, a majority of the members of the Nomination Committee are independent non-executive Directors and the Nomination Committee comprised the following members:

Mr. Wang Gao	*(Independent non-executive Director and the chairman of the Nomination Committee)*
Ms. Liu Hong Yu	*(Independent non-executive Director)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Mr. Zhang Da Zhong	*(Non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (retired with effect from 26 May 2017)*

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

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

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

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

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

The Nomination Committee shall meet at least once each year.

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

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

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

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

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

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

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

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

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

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

Independent Committee

The Independent Committee was established by the Board on 21 August 2009. During the year ended 31 December 2017, the Independent Committee comprised the following members:

Mr. Zhang Da Zhong	*(Non-executive Director and the chairman of the Independent Committee)*
Mr. Lee Kong Wai, Conway	*(Independent non-executive Director)*
Ms. Liu Hong Yu	*(Independent non-executive Director)*
Mr. Wang Gao	*(Independent non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (retired with effect from 26 May 2017)*

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

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

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

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

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

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

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

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

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

During the year under review, 3 meetings of Independent Committee were held. Attendance records of the members of the Independent Committee of such meetings are as follows:

Committee members	Attendance
Mr. Zhang Da Zhong	3/3
Mr. Lee Kong Wai, Conway	3/3
Ms. Liu Hong Yu	3/3
Mr. Wang Gao	3/3
Mr. Ng Wai Hung*	1/3

* *As disclosed in the announcement of the Company dated 26 May 2017, Mr. Ng Wai Hung retired as an independent non-executive Director and a member of Independent Committee. Therefore, he did not attend the Independent Committee meetings held subsequently.*

Accountability and Audit

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

Audit Committee

The Audit Committee was established in 2004. During the year ended 31 December 2017, the Audit Committee comprised the following members:

Mr. Lee Kong Wai, Conway	*(Independent non-executive Director and the chairman of the Audit Committee)*
Ms. Liu Hong Yu	*(Independent non-executive Director)*
Mr. Yu Sing Wong	*(Non-executive Director)*
Mr. Ng Wai Hung	*(Independent non-executive Director) (retired with effect from 26 May 2017)*

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

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

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

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

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

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

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

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

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

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

The Audit Committee shall meet at least twice each year. In 2017, 4 Audit Committee meetings were held for, among other matters, considering the annual results of the Group for the financial year ended 31 December 2016, the quarterly results of the Group for the three-month period ended 31 March 2017, the interim results of the Group for the six-month period ended 30 June 2017 and the quarterly results of the Group for the nine-month period ended 30 September 2017, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group.

During the year under review, attendance records of the members of Audit Committee are as follows:

Committee members	Attendance
Mr. Lee Kong Wai, Conway	4/4
Ms. Liu Hong Yu	4/4
Mr. Yu Sing Wong	4/4
Mr. Ng Wai Hung*	2/4

* *As disclosed in the announcement of the Company dated 26 May 2017, Mr. Ng Wai Hung retired as an independent non-executive Director and a member of Audit Committee. Therefore, he did not attend the Audit Committee meetings held subsequently.*

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2017 was RMB7,413,000 (2016: RMB7,811,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2017 was RMB1,834,000 (2016: RMB762,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the annual general meeting to be held in 2018. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the annual general meeting to be held in 2018.

INTERNAL CONTROLS AND RISKS MANAGEMENT

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

The Board had reviewed the effectiveness of the Group's internal control and risk management systems for the year 2017 and is satisfied that, based on information furnished to it and on its own observations, the present internal control systems of the Group are satisfactory.

COMPANY SECRETARY

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

COMMUNICATION WITH SHAREHOLDERS

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

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

SHAREHOLDERS' RIGHTS

Right to convene a special general meeting

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

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

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

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

Right to propose resolutions at general meetings

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

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

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

Right to nominate directors for election at general meetings

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

Disclaimers

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, there was no significant change to the Company's Bye-laws or Memorandum of Association.

PROCEDURES FOR PUTTING ENQUIRIES TO THE BOARD

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

INVESTOR RELATIONS

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

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

	BEIJING	HONG KONG
Telephone number:	+86 10 5928 8915	+852 2122 9133
By post:	19A/F, Block B, Eagle Plaza No. 26 Xiaoyun Road Chao Yang District Beijing, China	Suite 2915, 29th Floor Two International Finance Centre 8 Finance Street, Central Hong Kong, China
Attention:	Investor Relations Department	Corporate Finance & Development Department
By email:	ir@gome.com.cn	info@gome.com.hk

Independent Auditor's Report

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

To the shareholders of GOME Retail Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of GOME Retail Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 195, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of RMB14,110,000,000 as of 31 December 2017 and the goodwill impairment amount charged to the current year's profit or loss of RMB214,966,000 were material to the consolidated financial statements. In addition, management's assessment process is complex and judgemental and is based on various assumptions, specifically assumptions about store revenues, gross margins, expenses and the discount rate, which are affected by expected future market or economic conditions. The Group's disclosures about goodwill are included in notes 3 and 15 to the consolidated financial statements.	Our audit procedures included, among others, involving our valuation experts to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and long term growth rate for Artway Development Limited, China Paradise Electronics Retail Limited ("China Paradise"), Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances") and Tengda Technology Co., Ltd. ("Tengda"). Our testing included, but was not limited to, comparing key assumptions to externally available industry, economic and financial data and the Group's own historical data and performance. We also performed a sensitivity analysis for the recoverable amounts of the respective cash-generating units. We also focused on the adequacy of the disclosures about the key assumptions used in the value in use calculations in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of non-current assets related to retail stores and online business	
The Group operates networks of retail stores and online sale of home appliances in Mainland China. The related non-current assets for retail stores and online business mainly represent leasehold improvements and equipment, which were important to our audit due to the size of the related assets with a carrying amount of RMB1,193,421,000 at 31 December 2017, as well as the judgement of management involved in the assessment of the recoverability of the assets. Such judgement is mainly focused on estimating future store performance, which is dependent on, amongst others, the industry landscape, overall economic environment and the competitors in local markets. Management assesses, on a half-year basis, whether there are events indicating a potential impairment. Management provided for an impairment loss of RMB374,204,000 during the year. The Group's disclosures about the impaired assets are included in notes 3 and 13 to the consolidated financial statements.	Our audit procedures included, among others, an evaluation of the Group's policies and procedures to identify events that are indicators of the potential impairment of assets related to underperforming cash-generating units ("CGUs"). We assessed management's cash flow assumptions for each cash-generating unit for which an impairment indicator was identified and corroborated them by comparing to internal forecasts and store improvement plans, as well as to historical data and performance. We also involved our valuation experts to evaluate the discount rate applied by the Group.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	6	**71,574,873**	76,695,025
Cost of sales	7	**(60,519,950)**	(66,318,216)
Gross profit		**11,054,923**	10,376,809
Other income and gains	6	**2,012,321**	1,964,324
Selling and distribution expenses		**(9,595,440)**	(9,448,122)
Administrative expenses		**(2,322,337)**	(1,979,752)
Other expenses		**(1,531,295)**	(751,945)
Share of losses of associates		**(19,976)**	–
(Loss)/profit before finance (costs)/income and tax		**(401,804)**	161,314
Finance costs	8	**(691,860)**	(234,615)
Finance income	8	**294,803**	231,794
(LOSS)/PROFIT BEFORE TAX	7	**(798,861)**	158,493
Income tax expense	11	**(328,789)**	(212,688)
LOSS FOR THE YEAR		**(1,127,650)**	(54,195)
Attributable to:			
Owners of the parent		**(449,895)**	325,139
Non-controlling interests	37	**(677,755)**	(379,334)
		(1,127,650)	(54,195)
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic		**(RMB2.1 fen)**	RMB1.6 fen
– Diluted		**(RMB2.1 fen)**	RMB1.6 fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
LOSS FOR THE YEAR		**(1,127,650)**	(54,195)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments	*18*	**(240,030)**	20,322
Exchange differences on translation of foreign operations		**(12,454)**	(1,035)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(252,484)**	19,287
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(252,484)**	19,287
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,380,134)**	(34,908)
Attributable to:			
Owners of the parent		**(702,379)**	344,426
Non-controlling interests	*37*	**(677,755)**	(379,334)
		(1,380,134)	(34,908)

Consolidated Statement of Financial Position

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property and equipment	*13*	**6,398,106**	6,644,941
Investment properties	*14*	**901,285**	605,030
Goodwill	*15*	**14,110,000**	14,324,966
Other intangible assets	*16*	**388,522**	432,403
Investments in associates	*17*	**201,684**	17,000
Investment in a joint venture		**3,781**	–
Other investments	*18*	**1,956,320**	1,007,046
Lease prepayments and deposits	*19*	**2,142,728**	1,521,948
Entrusted loan	*20*	**500,000**	500,000
Deferred tax assets	*21*	**48,789**	56,251
Total non-current assets		**26,651,215**	25,109,585
CURRENT ASSETS			
Inventories	*22*	**11,255,447**	11,605,958
Trade and bills receivables	*23*	**186,370**	162,908
Prepayments, deposits and other receivables	*24*	**5,053,080**	4,731,201
Due from related companies	*25*	**349,953**	239,392
Equity investments at fair value through profit or loss	*26*	**3,748,709**	1,333,529
Pledged deposits	*27*	**6,735,401**	5,382,804
Cash and cash equivalents	*27*	**9,243,844**	13,236,752
Total current assets		**36,572,804**	36,692,544
CURRENT LIABILITIES			
Trade and bills payables	*28*	**22,838,893**	23,898,406
Current portion of a finance lease payable	*32*	**51,994**	–
Customers' deposits, other payables and accruals	*29*	**4,296,710**	3,932,511
Interest-bearing bank loans	*30*	**3,025,262**	520,164
Due to related companies	*25*	**121,820**	661,427
Tax payable		**1,059,600**	1,051,761
Current portion of bonds payable	*31*	**3,949,387**	–
Total current liabilities		**35,343,666**	30,064,269
NET CURRENT ASSETS		**1,229,138**	6,628,275
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,880,353**	31,737,860

Consolidated Statement of Financial Position

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT LIABILITIES			
Bonds payable	*31*	**8,165,796**	8,849,485
Due to related companies	*25*	**1,617,682**	–
Deferred tax liabilities	*21*	**460,765**	443,098
Interest-bearing bank loans	*30*	**96,938**	1,470,050
Finance lease payable	*32*	**12,946**	–
Total non-current liabilities		**10,354,127**	10,762,633
Net assets		**17,526,226**	20,975,227
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*33*	**518,322**	527,309
Reserves	*36*	**19,394,803**	21,958,850
		19,913,125	22,486,159
Non-controlling interests		**(2,386,899)**	(1,510,932)
Total equity		**17,526,226**	20,975,227

Zhang Da Zhong
Director

Zou Xiao Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent														
	Notes	Issued capital RMB'000 Note 33	Treasury shares RMB'000 Note 35	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Warrant reserve RMB'000	Asset revaluation reserve# RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 Note 36	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		527,309	(257,495)	14,183,499	657	(618,172)	163,720	117,731	117,468	356,704	1,674,765	(148,615)	6,368,588	22,486,159	(1,510,932)	20,975,227
Loss for the year		-	-	-	-	-	-	-	-	-	-	-	(449,895)	(449,895)	(677,755)	(1,127,650)
Other comprehensive loss for the year:																
Changes in fair value of other investments	18	-	-	-	-	-	-	-	-	(240,030)	-	-	-	(240,030)	-	(240,030)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	-	(12,454)	-	(12,454)	-	(12,454)
Total comprehensive loss for the year		-	-	-	-	-	-	-	-	(240,030)	-	(12,454)	(449,895)	(702,379)	(677,755)	(1,380,134)
Establishment of a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-	20,000	20,000
Acquisition of subsidiaries	5	-	-	-	-	(1,227,318)	-	-	-	-	-	-	-	(1,227,318)	(218,212)	(1,445,530)
Shares repurchased for cancellation		(8,987)	-	(354,364)	-	-	-	-	-	-	-	-	-	(363,351)	-	(363,351)
Shares repurchased for share award scheme		-	(147,792)	-	-	-	-	-	-	-	-	-	-	(147,792)	-	(147,792)
Transfer to statutory reserves		-	-	-	-	-	-	-	-	-	37,772	-	(37,772)	-	-	-
2016 dividend paid	38	-	-	-	-	-	-	-	-	-	-	-	(132,194)	(132,194)	-	(132,194)
Share options expired	34	-	-	-	-	-	(163,720)	-	-	-	-	-	163,720	-	-	-
Wind-up of subsidiaries		-	-	-	-	-	-	-	-	-	(185)	-	185	-	-	-
At 31 December 2017		518,322	(405,287)*	13,829,135*	657*	(1,845,490)*	-	117,731*	117,468*	116,674*	1,712,352*	(161,069)*	5,912,632*	19,913,125	(2,386,899)	17,526,226

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

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

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

* These reserve accounts comprise the consolidated reserves of RMB19,394,803,000 (2016: RMB21,958,850,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(798,861)	158,493
Adjustments for:			
Finance income	8	(294,803)	(231,794)
Finance costs	8	691,860	234,615
Share of losses of associates		19,976	–
Dividends income from listed investments	6	(10,938)	–
Gain on disposal of other investments	6	(3,788)	–
Fair value gain on equity investments at fair value through profit or loss	7	(213,594)	(10,207)
Impairment of goodwill	7	214,966	22,986
Fair value gain on derivative financial instruments	7	–	(109,121)
Impairment provision for items of property and equipment	7	374,204	37,852
Net fair value gain on investment properties	7	(28,129)	(5,198)
Loss on disposal of items of property and equipment	7	91,196	5,859
Depreciation	7	811,330	723,993
Amortisation of intangible assets	7	43,881	39,700
Amortisation of prepaid land lease payments	7	33,300	23,074
Gain on compensation received		–	(81,915)
Equity-settled share option expense	34	–	337
		930,600	808,674
(Increase)/decrease in lease prepayments and deposits		(575,516)	73,719
Decrease in inventories		404,368	1,391,670
(Increase)/decrease in trade and bills receivables		(23,360)	71,326
(Increase)/decrease in prepayments, deposits and other receivables		(161,151)	125,413
Decrease in amounts due from related companies		303,451	1,571,624
Decrease in pledged deposits for bills payable		211,905	271,035
Decrease in trade and bills payables		(1,059,680)	(615,329)
Increase in customers' deposits, other payables and accruals		183,358	330,614
Decrease in amounts due to related companies		(1,300,933)	(1,267,105)
Cash (used in)/generated from operations		(1,086,958)	2,761,641
Interest received		226,712	231,794
Income tax paid		(295,821)	(308,240)
Net cash flows (used in)/from operating activities		(1,156,067)	2,685,195

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows (used in)/from operating activities		**(1,156,067)**	2,685,195
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income from listed investments		**10,938**	–
Purchases of items of property and equipment		**(757,403)**	(745,607)
Proceeds from disposal of items of property and equipment		**3,975**	131,400
Purchase of an investment property		**(280,939)**	–
Net cash used in acquisition of Meixin Group	5	**(875,545)**	–
Net proceeds from acquisition of Artway Group		**–**	481,042
Prepaid land lease payments		**(80,166)**	(131,283)
Purchases of equity investments at fair value through profit or loss		**(3,397,186)**	(281,323)
Proceeds from disposal of equity investments at fair value through profit or loss		**1,195,600**	–
Purchases of available-for-sale investments		**(1,199,334)**	(391,711)
Proceeds from disposal of available-for-sale investments		**13,818**	–
Investment in entrusted loan		**–**	(500,000)
Investments in associates		**(204,660)**	(17,000)
Investment in a joint venture		**(3,781)**	–
Net cash flows used in investing activities		**(5,574,683)**	(1,454,482)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		**(511,143)**	(650,893)
Proceeds from the issuance of corporate bonds		**3,423,045**	8,834,767
Capital injection from non-controlling shareholders		**20,000**	5,989
Payment for a finance lease payable		**(41,716)**	–
Proceeds from new bank loans		**1,981,326**	1,901,342
Repayment of bank loans		**(966,793)**	(4,574,844)
Proceeds from the loans due to related companies		**1,160,482**	–
Deposits for bonds payable		**(163,782)**	–
Proceeds from pledged deposits for bank loans		**703,600**	–
Payment for pledged deposits for bank loans		**(2,104,320)**	(703,600)
Dividends paid		**(132,194)**	(284,211)
Interest paid		**(552,457)**	(27,739)
Net cash flows from financing activities		**2,816,048**	4,500,811
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(3,914,702)**	5,731,524
Cash and cash equivalents at 1 January		**13,236,752**	7,437,717
Effect of foreign exchange rate changes, net		**(78,206)**	67,511
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,243,844**	13,236,752
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**8,133,244**	12,603,870
Non-pledged time deposits with original maturity of less than three months when acquired		**1,110,600**	632,882
	27	**9,243,844**	13,236,752

Notes to Financial Statements

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1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

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

Notes to Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chengdu GOME Electrical Appliance Company Limited (i) 成都國美電器有限公司	PRC	RMB20 million	–	100	Note (iii)
Xi'an GOME Electrical Appliance Company Limited (i) 西安市國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Kunming GOME Electrical Appliance Company Limited (i) 昆明國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Shenzhen GOME Electrical Appliance Company Limited (i) 深圳市國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Fuzhou GOME Electrical Appliance Company Limited (i) 福州國美電器有限公司	PRC	RMB50 million	–	100	Note (iii)
Guangzhou GOME Electrical Appliance Company Limited (i) 廣州市國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Wuhan GOME Electrical Appliance Company Limited (i) 武漢國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Shenyang GOME Electrical Appliance Company Limited (i) 瀋陽國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Jinan GOME Electrical Appliance Company Limited (i) 濟南國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Qingdao GOME Electrical Appliance Company Limited (i) 青島國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Kunming GOME Logistics Company Limited (i) 昆明國美物流有限公司	PRC	RMB8 million	–	100	Note (iv)
Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited (i) 常州金太陽至尊電器有限公司	PRC	RMB50 million	–	100	Note (iii)
Beijing Pengze Real Estate Company Limited (i) 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding
Shenyang Pengrun Electrical Appliance Company Limited (i) 瀋陽鵬潤電器有限公司	PRC	RMB10 million	–	100	Investment holding
Jiangsu Pengrun GOME Electrical Appliance Company Limited (i) 江蘇鵬潤國美電器有限公司	PRC	RMB20 million	–	100	Note (iii)
GOME Retail Co., Ltd. (i) 國美零售有限公司	PRC	RMB100 million	–	100	Investment holding
Shenzhen eHome Commercial Chain Company Limited (i) 深圳易好家商業連鎖有限公司	PRC	RMB20 million	–	100	Note (iii)
Gansu GOME Logistics Company Limited (i) 甘肅國美物流有限公司	PRC	RMB10 million	–	100	Note (iv)
Nanjing Pengze Investment Company Limited (i) 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shandong Longji Island Construction Company Limited (i) 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
Beijing Dazhong Hengxin Ruida Trading Company Limited (i) 北京市大中恒信瑞達商貿有限公司	PRC	RMB200 million	–	100	Note (iv)
GOME Customization Tianjin Co., Ltd. (i) 國美定制(天津)有限公司	PRC	RMB20 million	–	100	Note (iv)
Kuba Technology (Beijing) Co., Ltd. ("Kuba") (i) 庫巴科技(北京)有限公司	PRC	RMB83 million	–	60	Note (ix)
GOME-on-line e-Commerce Co., Ltd. ("GOME-on-line") (i) 國美在線電子商務有限公司	PRC	RMB83 million	–	60	Note (ix)
GOME Japan Company Limited	Japan	JPY200 million	–	51	Note (ix)
Beijing Dazhong Home Appliances Retail Co., Ltd. (i) 北京市大中家用電器連鎖銷售有限公司	PRC	RMB200 million	–	100	Note (iii)
GOME International Trading Company Limited 國美海外購有限公司	Hong Kong	HK$1	100	–	Note (ix)
Shantou Shengyuan Yuexin Technology Co., Ltd. (i) 汕頭盛源悅信科技有限公司	PRC	US$12 million/ US$30 million	–	100	Notes (iv)/(v)
GOME Smart Technology Co., Ltd. (i) 國美智能科技有限公司	PRC	RMB50 million	–	100	Note (xi)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
GOME Big Data Holdings (H.K.) Limited 國美大數據(香港)控股有限公司	Hong Kong	HK$1	100	–	Investment holding
Beijing GOME Anxun Technology Co., Ltd. (i) 北京國美安迅科技有限公司	PRC	RMB50 million	–	100	Note (x)
Shenyang GOME Anxun Technology Co., Ltd. (i) 瀋陽國美安迅科技有限公司	PRC	RMB50 million	–	100	Note (x)
Beijing GOME Steward IT Co., Ltd. (i) 北京國美管家信息技術有限公司	PRC	RMB10 million	–	65	Note (x)
Ningbo GOME Anxun Technology Co., Ltd. (i) 寧波國美安迅科技有限公司	PRC	RMB50 million	–	100	Note (x)
GOME Big Data Technology Co., Ltd. (i) 國美大數據科技有限公司	PRC	RMB50 million	–	60	Note (xi)
Chengdu GOME Big Data Technology Co., Ltd. (i) 成都國美大數據科技有限公司	PRC	RMB30 million/ RMB100 million	–	100	Note (xi)
Tianjin GOME Equity Investment Management Co., Ltd. (i) 天津國美股權投資管理有限公司	PRC	RMB30 million	–	100	Investment holding
Tianjin GOME Xinchang Equity Investment Management Co., Ltd. (i) 天津國美信昌股權投資管理有限公司	PRC	RMB10 million	–	100	Investment holding
Dazi GOME Xinze Entrepreneurship Investment Management Co., Ltd. (i) 達孜國美信澤創業投資管理有限公司	PRC	RMB10 million/ RMB30 million	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tianjin GOME Xinchangda Equity Investment LLP 天津國美信昌達股權投資合夥企業（有限合夥）	PRC	RMB61 million/ RMB305 million	–	100	Investment holding
Artway Development Limited 藝偉發展有限公司	British Virgin Islands	US$1	100	–	Investment holding
Beijing Jinzun Technology Development Co., Ltd. (i) 北京金尊科技發展有限公司	PRC	RMB108.9 million	–	100	Investment holding
GOME Electrical Appliances Retail Co., Ltd. (i) 國美電器零售有限公司	PRC	RMB100 million	–	100	Note (iii)
Beijing GOME Logistics Co., Ltd. (i) 北京國美物流有限公司	PRC	RMB10 million	–	100	Note (iv)
Beijing Dingrui Property Co., Ltd. (i) 北京鼎銳置業有限公司	PRC	RMB10 million	–	100	Property holding
Anshan GOME Electrical Appliances Co., Ltd. (i) 鞍山國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Daqing GOME Electrical Appliances Co., Ltd. (i) 大慶國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Dalian Xinxundian Trading Co., Ltd. (i) 大連新訊點貿易有限公司	PRC	RMB500,000	–	100	Note (vii)
Datong Century North Electrical Appliances Co., Ltd. (i) 大同世紀北方電器有限責任公司	PRC	RMB5 million	–	100	Note (iii)

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1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guizhou GOME Electrical Appliances Co., Ltd. (i) 貴州國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Henan GOME Electrical Appliances Co., Ltd. (i) 河南省國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Hebei GOME Electrical Appliances Co., Ltd. (i) 河北國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Heilongjiang Black Swan Home Appliances Co., Ltd. (i) 黑龍江黑天鵝家電有限公司	PRC	RMB10 million	–	100	Note (iii)
Jilin GOME Electrical Appliances Co., Ltd. (i) 吉林國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Jiangxi Pengrun GOME Electrical Appliances Co., Ltd.(i) 江西鵬潤國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Ningbo Zhe GOME Electrical Appliances Co., Ltd. (i) 寧波浙國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Nanning GOME Electrical Appliances Co., Ltd. (i) 南寧國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Nanning GOME Logistics Co., Ltd. (i) 南寧國美物流有限公司	PRC	RMB6 million	–	100	Note (iv)
Shanghai GOME Electrical Appliances Co., Ltd. (i) 上海國美電器有限公司	PRC	RMB40 million	–	100	Note (iii)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanxi GOME Electrical Appliances Co., Ltd. (i) 山西國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Wuxi GOME Electrical Appliances Co., Ltd. (i) 無錫國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Xiamen GOME Electrical Appliances Co., Ltd. (i) 廈門國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Xinjiang GOME Electrical Appliances Co., Ltd. (i) 新疆國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Zhejiang GOME Electrical Appliances Co., Ltd. (i) 浙江國美電器有限公司	PRC	RMB8 million	–	100	Note (iii)
Beijing Hengxin Damei Trading Co., Ltd. (i) 北京恒信達美商貿有限公司	PRC	RMB5 million	–	100	Note (iv)
Tianjin Zhansheng Trading Co., Ltd. (i) 天津戰聖商貿有限公司	PRC	RMB20 million	–	100	Note (iv)
Tianjin Shengyuan Pengda Logistics Co., Ltd. (i) 天津盛源鵬達物流有限公司	PRC	RMB50 million	–	100	Note (iv)
Dalian GOME Electrical Appliances Co., Ltd. (i) 大連國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Tianjin GOME Zhansheng Logistics Co., Ltd. (i) 天津國美戰聖物流有限公司	PRC	RMB20 million	–	100	Note (iv)

Notes to Financial Statements

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1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wuhai GOME Electrical Appliances Co., Ltd. (i) 烏海國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Nanchang GOME Electrical Appliances Co., Ltd. (i) 南昌國美電器有限公司	PRC	RMB1 million	–	100	Note (iii)
Jiangyin GOME Electrical Appliances Co., Ltd. (i) 江陰國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Luohe GOME Electrical Appliances Co., Ltd. (i) 漯河國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Beijing GOME Baotou Electrical Appliance Co., Ltd. (i) 北京國美包頭電器有限公司	PRC	RMB10 million	–	100	Note (iii)
GOME Australia PTY. Ltd.	Australia	AUD1 million	–	51	Note (ix)
Chongqing Jiagou Co., Ltd. 重慶佳購科技有限公司	PRC	US$2 million/ US$5 million	–	100	Note (xi)
Chongqing Weijie Commerce Co., Ltd. 重慶微界商貿有限公司	PRC	RMB10 million	–	100	Note (v)
Chongqing GOME Huashang Commerce Co., Ltd. 重慶國美華尚商貿有限公司	PRC	RMB10 million	–	100	Note (v)
Shanghai GOME E-commerce Co., Ltd. 上海國美電子商務有限公司	PRC	RMB50 million	–	100	Note (ix)
Shanghai Yongle Minrong Consumer Goods Delivery Co., Ltd. (i) 上海永樂民融消費品配送有限公司	PRC	RMB10 million	–	100	Note (x)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shandong Dazhong Electrical Appliances Co., Ltd. (i) 山東大中電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Shenzhen GOME Huitai Network Technology Co., Ltd. (i) 深圳市國美匯泰網絡科技有限公司	PRC	RMB5 million	–	100	Note (xi)
Meixin Network Technology Co., Ltd. (i) 美信網絡技術有限公司	PRC	RMB50 million	–	60	Note (xi)
Sanbian Wine Investment Co., Ltd. (i) 三邊酒業投資有限公司	PRC	RMB50 million	–	60	Note (v)
Sanbian Club Co., Ltd. (i) 三邊俱樂部有限公司	PRC	RMB50 million	–	60	Note (v)
Liuzhou GOME Electrical Appliances Co., Ltd. (i) 柳州國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Guangdong GOME Electrical Appliances Co., Ltd. (i) 廣東國美電器有限公司	PRC	RMB10 million	–	100	Note (iv)
Nanfang GOME Electrical Appliances Co., Ltd. (i) 南方國美電器有限公司	PRC	RMB20 million/ RMB1 billion	–	100	Note (iv)
Chengdu GOME Logistics Management Co., Ltd. (i) 成都國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Jinan GOME Logistics Management Co., Ltd. (i) 濟南國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ningbo GOME Logistics Management Co., Ltd. (i) 寧波國美供應鏈管理有限公司	PRC	RMB10 million/ RMB20 million	–	100	Note (iv)
Nanjing GOME Logistics Management Co., Ltd. (i) 南京國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Qingdao GOME Logistics Management Co., Ltd. (i) 青島國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Suzhou GOME Logistics Management Co., Ltd. (i) 蘇州國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Tianjin GOME Logistics Management Co., Ltd. (i) 天津國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Xiamen GOME Logistics Management Co., Ltd. (i) 廈門國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Shaanxi Fengxing Logistics Management Co., Ltd. (i) 陝西蜂星供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Kunming GOME Electrical Appliances Co., Ltd. (i) 昆明國美家電有限公司	PRC	RMB10 million	–	100	Note (iv)
Wuhan GOME Home Electrical Appliances Co., Ltd. (i) 武漢國美家電有限公司	PRC	RMB10 million	–	100	Note (iv)
Hainan GOME Taida Logistics Co., Ltd. (i) 海南國美泰達物流有限公司	PRC	RMB10 million	–	100	Note (iv)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhongshan GOME Logistics Management Co., Ltd. (i) 中山國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Yantai GOME Logistics Management Co., Ltd. (i) 煙台國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Zhejiang GOME Logistics Management Co., Ltd. (i) 浙江國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Shenyang GOME Logistics Management Co., Ltd. (i) 瀋陽國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Guizhou GOME Logistics Management Co., Ltd. (i) 貴州國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Shanghai GOME Logistics Management Co., Ltd. (i) 上海國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Shanghai Yongle Minrong Logistics Co., Ltd. (i) 上海永樂民融供應鏈有限公司	PRC	RMB10 million	–	100	Note (iv)
Chongqing GOME Yuxin Electrical Appliances Co., Ltd. (i) 重慶國美渝信家電有限公司	PRC	RMB10 million	–	100	Note (iv)
Xinjiang GOME Electrical Home Appliances Co., Ltd. (i) 新疆國美家電有限公司	PRC	RMB10 million	–	100	Note (iv)
Xi'an GOME Commerce Co., Ltd. (i) 西安國美商業有限公司	PRC	RMB10 million	–	100	Note (iv)

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1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhanjiang GOME Commerce Co., Ltd. (i) 湛江國美商業有限公司	PRC	RMB10 million	–	100	Note (iv)
Foshan GOME Electrical Appliances Co., Ltd. (i) 佛山國美電器有限公司	PRC	RMB10 million	–	100	Note (iv)
GOME Wang'an Technology Co., Ltd. (i) 國美網安科技有限公司	PRC	RMB10 million/ RMB50 million	–	100	Note (xi)
Beijing GOME Cloud Network Technology Co., Ltd. (i) 北京國美雲網絡科技有限公司	PRC	RMB50 million	–	60	Note (xi)
GOME Capital Management Co., Ltd. (i) 國美資本管理有限公司	PRC	RMB50 million/ RMB100 million	–	100	Investment holding
Shenzhen GOME Yunzhi Technology Co., Ltd. (i) 深圳國美雲智科技有限公司	PRC	RMB15 million/ RMB100 million	–	100	Note (xi)
Ningbo Meishan Bonded Port GOME Investment Partnership (limited partnership) (i) 寧波梅山保稅港區國美投資合夥企業（有限合夥）	PRC	RMB558 million/ RMB5,000 million	–	100	Investment holding
Ningbo Meishan Bonded Port GOME Xinshengda Investment Partnership (limited partnership) (i) 寧波梅山保稅港區國美信盛達創業投資合夥企業（有限合夥）	PRC	RMB462 million/ RMB1,500 million	–	100	Investment holding
Tianjin GOME Xinxing Equity Investment Management Co., Ltd. (i) 天津國美信興股權投資管理有限公司	PRC	RMB3 million/ RMB10 million	–	100	Investment holding
Tianjin GOME Xinsheng Equity Investment Management Co., Ltd. (i) 天津國美信盛股權投資管理有限公司	PRC	RMB3 million/ RMB10 million	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing GOME International Wine Trade Co., Ltd (i) 北京國美國際酒業貿易有限公司	PRC	RMB10 million/ RMB100 million	–	60	Wine trade
Shanghai Minrong Investment Co., Ltd (i) 上海民融投資有限公司	PRC	RMB80 million	–	100	Investment holding

Notes:

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

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

(iii) Retailing of electrical appliances and consumer electronic products

(iv) Provision of logistics and procurement services

(v) Provision of business management services

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

(vii) Retailing of mobile phones and accessories

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

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

(x) Provision of storage and delivery services

(xi) Provision of IT development and services

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

2.1 BASIS OF PREPARATION

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes is provided in note 39(b) to the financial statements.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group had no subsidiary classified as a disposal group held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

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

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

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and IFRS 9 is expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

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

The IASB issued amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet an employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Upon adoption of IFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. It expects to continue measuring at fair value all financial assets currently held at fair value.

The quoted equity investments currently held as available for sale ("AFS"), which are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income, will be measured at fair value through other comprehensive income. Gains and losses recorded in other comprehensive income for the quoted equity investments cannot be recycled to profit or loss when the investments are derecognised.

The equity investments in non-listed companies currently held as AFS are intended to be held for medium term and management may dispose these investments in the future. These equity investments are measured at fair value through profit or loss.

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

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The initial adoption of IFRS 9 is not expected to have any significant impact on the provision for impairment.

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

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs.

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

Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. The IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 from 1 January 2018 and plans to adopt the modified retrospective approach. During 2017, the Group has performed a preliminary detailed assessment on the impact of the adoption of IFRS 15.

The Group's principal activities consist of the operation and management of networks of retail stores of electrical appliances and consumer electronic products and online sale of electronic products. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Loyalty points programme

Under IFRIC 13 Customer Loyalty Programmes, the loyalty programme offered by the Group results in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty programme gives rise to a separate performance obligation because it generally provides a material right to the customer. Under IFRS 15, the Group will need to allocate a portion of the transaction price to the loyalty programme based on relative standalone selling price instead of the allocation using the fair value of points issued, i.e. the residual approach, as it did under IFRIC 13. The initial adoption is not expected to have any significant impact on the Group's financial statements.

(b) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

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

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group and is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 40(a) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB15,351,687,000 (2016:RMB18,351,088,000). Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to IAS 28 issued in October 2017 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

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

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

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

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

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

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and depreciation

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

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

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

Buildings	20 to 40 years
Leasehold improvements	The shorter of the remaining lease terms and five years, whichever is shorter
Equipment and fixtures	4 to 15 years
Motor vehicles	5 years
Aircraft	10 years

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life of 10 or 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets.

The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

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

Treasury shares

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

Inventories

Inventories comprise merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Revenue recognition

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

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

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

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

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

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

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

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

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

The cost of cash-settled transactions is measured initially at fair value at the grant date using the binomial tree model, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

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

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

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

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

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

Termination benefits

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

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Inventories

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

Operating lease arrangements – Group as lessee

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

Classification between investment properties and owner-occupied properties

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

Tax provisions

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB14,110,000,000 (2016: RMB14,324,966,000). Further details are given in note 15.

Estimation of fair value of investment properties

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

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

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

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

The carrying amount of investment properties as at 31 December 2017 was RMB901,285,000 (2016: RMB605,030,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to tax losses at 31 December 2017 was RMB11,389,000 (2016: RMB13,027,000). The amount of unrecognised tax losses at 31 December 2017 was RMB5,936,060,000 (2016: RMB6,113,289,000). Further details are given in note 21 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, no impairment loss has been recognised for available-for-sale assets (2016: Nil). The carrying amount of available-for-sale assets was RMB1,956,320,000 (2016: RMB1,007,046,000).

Assessment of useful lives of property and equipment

The Group has estimated the useful lives of the property and equipment to be 4 to 40 years. Depreciation of items of property and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property and equipment as at 31 December 2017 was RMB6,398,106,000 (2016: RMB6,644,941,000). Further details are given in note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

4. OPERATING SEGMENT INFORMATION (Continued)

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

	2017 RMB'000	2016 RMB'000
Segment revenue		
Sales to external customers	**71,574,873**	76,695,025
Segment results	**(395,416)**	256,877
Reconciliation:		
Bank interest income	**294,803**	231,794
Unallocated income	**6,309**	2,351
Finance costs	**(691,860)**	(234,615)
Gain on equity investments at fair value through profit or loss, net	**213,594**	10,207
Dividends income from listed investments	**10,938**	–
Share of losses of associates	**(19,976)**	–
Corporate and other unallocated expenses	**(217,253)**	(108,121)
Profit before tax	**(798,861)**	158,493

	2017 RMB'000	2016 RMB'000
Segment assets	**41,285,491**	40,785,747
Reconciliation:		
Corporate and other unallocated assets	**21,938,528**	21,016,382
Total assets	**63,224,019**	61,802,129
Segment liabilities	**28,940,045**	28,492,344
Reconciliation:		
Corporate and other unallocated liabilities	**16,757,748**	12,334,558
Total liabilities	**45,697,793**	40,826,902
Other segment information		
Depreciation and amortisation	**888,511**	786,767
Capital expenditure*	**1,039,269**	1,016,813

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

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2017 **RMB'000**	2016 RMB'000
Mainland China	**71,574,873**	76,695,025

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

(b) Non-current assets

	2017 **RMB'000**	2016 RMB'000
Mainland China	**24,332,621**	24,007,736
Hong Kong	**37,920**	38,552
Europe	**3,781**	–
United States of America	**271,784**	–
	24,646,106	24,046,288

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

5. BUSINESS COMBINATION UNDER COMMON CONTROL

On 31 March 2017, the Group acquired 60% of the equity interests of 美信網絡技術有限公司 (Meixin Network Technology Company Limited or "Meixin") and its subsidiaries (the "Meixin Group"), an unlisted group principally engaged in the a business of mobile social data platform known as "GOME Plus", at a cash consideration of RMB900 million.

Meixin Group was ultimately controlled by Mr. Wong Kwong Yu ("Mr. Wong"), who is also the controlling shareholder of the Group. Therefore, the Group accounted for this transaction as business combination under common control by applying the pooling of interests method. The fair value of the consideration paid for this acquisition exceeding the carrying amount of the net liabilities attributable to the Group was recognised as capital reserve amounted to RMB1,227,318,000.

5. BUSINESS COMBINATION UNDER COMMON CONTROL (Continued)

The carrying amounts of the assets and liabilities of the Meixin Group as at the date of acquisition were:

	Carrying amounts recognised on acquisition RMB'000
Property and equipment	275,540
Inventories	53,857
Trade and bills receivables	102
Prepayments, deposits and other receivables	91,035
Due from related companies	414,012
Cash and cash equivalents	24,455
Trade and bills payables	(167)
Customers' deposits, other payables and accruals	(98,139)
Current portion of finance lease payable	(50,953)
Due to related companies	(1,203,858)
Finance lease payable	(51,414)
Total identifiable net liabilities at carrying amount	(545,530)
Non-controlling interests	218,212
Capital reserve arising on acquisition	1,227,318
Satisfied by:	
Cash	900,000

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

	RMB'000
Cash consideration	(900,000)
Cash and cash equivalents acquired	24,455
Net outflow of cash and cash equivalents	(875,545)

The Group incurred transaction costs of RMB1,740,000 for this acquisition. These transaction costs have been expensed and are included in the consolidated statement of profit or loss.

Management of the Company has determined not to restate the financial statements for the periods prior to date of the business combination under common control. Since 31 March 2017, Meixin Group contributed revenue of RMB32 million and a loss of RMB308 million for the period.

6. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2017 RMB'000	2016 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**71,574,873**	76,695,025
Other income			
Income from suppliers, net		**429,281**	389,405
Management fee from Artway Group	*(i)*	**–**	31,656
Income from air-conditioner installation		**190,494**	192,764
Gross rental income		**243,244**	297,474
Government grants	*(ii)*	**151,784**	177,079
Other service fee income		**356,218**	340,263
Income from compensation		**33,820**	104,037
Other income from telecommunication service providers		**94,673**	89,432
Commission income from providing on-line platforms		**77,933**	118,525
Income from disposal of other investments		**3,788**	–
Income from financial products		**93,131**	42,827
Dividends income from listed investments		**10,938**	–
Others		**85,294**	56,336
		1,770,598	1,839,798
Gains			
Fair value gain on investment properties	*14*	**28,129**	5,198
Fair value gains, net:			
Equity investments at fair value through profit or loss		**213,594**	10,207
Derivative financial instruments		**–**	109,121
		2,012,321	1,964,324

Notes:

(i) The management fee from Artway Development Limited and its subsidiaries (the "Artway Group") represented the transactions between the Group and the Artway Group for the period from 1 January 2016 to 31 March 2016.

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

7. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**60,519,950**	66,318,216
Depreciation	*13*	**811,330**	723,993
Amortisation of other intangible assets*	*16*	**43,881**	39,700
Amortisation of prepaid land lease payments	*19*	**33,300**	23,074
Loss on disposal of property and equipment***		**91,196**	5,859
Impairment of goodwill***		**214,966**	22,986
Net gain on equity investments at fair value through profit or loss		**(213,594)**	(10,207)
Minimum lease payments under operating leases		**4,431,414**	4,360,033
Impairment provision for property and equipment***	*13*	**374,204**	37,852
Fair value gain on derivative financial instruments		**–**	(109,121)
Foreign exchange differences, net		**154,375**	35,418
Auditors' remuneration			
– audit services		**7,413**	7,811
– non-audit services		**1,834**	762
Staff costs excluding directors' and chief executive's remuneration (note 9):			
Wages, salaries and bonuses		**2,867,010**	2,597,935
Pension scheme contributions**		**649,434**	615,472
Social welfare and other costs		**95,940**	77,402
Share award expense****	*35*	**9,011**	–
Equity-settled share option expense	*34*	**–**	294
		3,621,395	3,291,103
Gross rental income		**(243,244)**	(297,474)
Net fair value gain on investment properties	*14*	**(28,129)**	(5,198)

7. (LOSS)/PROFIT BEFORE TAX (Continued)

Notes:

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

** At 31 December 2017, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2016: Nil).

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

**** During the year, the Company granted share appreciation rights ("SARs") under the share award scheme to employees, executives and officers as part of their remuneration package, whereby the employees, executives and officers will become entitled to a future cash payment, based on the increase in the Company's share price from the exercisable price. The cost of SARs is measured initially at fair value at the grant date using the binomial tree model, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

8. FINANCE (COSTS)/INCOME

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

	Notes	2017 RMB'000	2016 RMB'000
Finance costs:			
Interest expense on bank loans		**(37,389)**	(27,739)
Interest expense on borrowing from related parties	*25,41(a)(vi)*	**(53,658)**	–
Interest expense on bonds payable	*31*	**(597,451)**	(206,876)
Interest expense on finance lease payable	*39(b)*	**(4,289)**	–
Total interest expense on financial liabilities not at fair value through profit or loss		**(692,787)**	(234,615)
Less: Interest capitalised		**927**	–
		(691,860)	(234,615)
Finance income:			
Bank interest income		**294,803**	231,794

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017 RMB'000	2016 RMB'000
Fees	**2,215**	2,394
Other emoluments:		
Salaries, allowances and other expenses	**1,868**	1,743
Share award expense	**83**	–
Equity-settled share option expense	**–**	43
Pension scheme contributions	**50**	47
	2,001	1,833

During the year 2009, certain directors and chief executive were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of these options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	Note	2017 RMB'000	2016 RMB'000
Mr. Lee Kong Wai, Conway		**346**	342
Mr. Ng Wai Hung	(ii)	**139**	342
Ms. Liu Hong Yu		**346**	342
Mr. Wang Gao		**346**	342
		1,177	1,368

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2016: Nil).

(ii) Mr. Ng Wai Hung retired as an independent non-executive director of the Company on 26 May 2017.

Notes to Financial Statements

31 December 2017

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

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

2017	Fees RMB'000	Salaries, allowances and other expenses RMB'000	Share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive director:					
Mr. Zou Xiao Chun	–	346	–	–	346
	–	346	–	–	346
Non-executive directors:					
Mr. Zhang Da Zhong	346	–	–	–	346
Ms. Huang Xiu Hong	346	–	–	–	346
Mr. Yu Sing Wong	346	–	–	–	346
	1,038	–	–	–	1,038
Chief executive:					
Mr. Wang Jun Zhou	–	1,522	83	50	1,655
	1,038	1,868	83	50	3,039

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

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

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

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

(c) Five highest paid individuals

The five highest paid individuals during the year included the chief executive (2016: the chief executive). Details of the chief executive's remuneration are set out above. Details of the remuneration for the year of the remaining four (2016: four) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and other expenses	**5,604**	5,663
Pension scheme contributions	**201**	162
Share award expense	**273**	–
Equity-settled share option expense	**–**	97
	6,078	5,922

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

	Number of individuals	
	2017	2016
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,297,505 to RMB1,730,675)	**4**	4

10. PENSION SCHEMES

All of the Group's PRC subsidiaries are required to participate in the employee retirement benefit schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 11% to 21% of the employees' salaries for the years ended 31 December 2017 (2016:20%-22.5%).

All the Hong Kong subsidiaries of the Group are required to participate in the MPF scheme under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group is required to make contributions for those employees who are registered as permanent residents in Hong Kong and are within the scope of the relevant Hong Kong regulations at the lesser of HK$18,000 and 5% of the employees' salaries for the years ended 31 December 2017 and 2016.

The Group's contributions to pension schemes for the year ended 31 December 2017 amounted to approximately RMB649,484,000 (2016: RMB615,519,000).

11. INCOME TAX EXPENSE

An analysis of the provision for tax in the financial statements is as follows:

	2017 RMB'000	2016 RMB'000
Current income tax	**303,660**	230,455
Deferred income tax *(note 21)*	**25,129**	(17,767)
Total tax charge for the year	**328,789**	212,688

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2016: 25%) on their respective taxable income. During the year, 48 entities (2016: 47 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

The Group realised tax benefits during the year through applying the preferential corporate income tax rates and the corporate income tax exemptions. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to assessment by the relevant PRC tax authorities.

As the Group had assessable profits arising in Hong Kong for 2017, a provision for Hong Kong profits tax of RMB46,000 has been made for the year ended 31 December 2017 (2016: Nil).

11. INCOME TAX EXPENSE (Continued)

A reconciliation of the tax expense applicable to profit or loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rate, is as follows:

	2017					
	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Loss before tax	**(271,953)**		**(526,908)**		**(798,861)**	
Income tax at the statutory tax rate	**(44,872)**	**16.5**	**(131,727)**	**25.0**	**(176,599)**	**22.1**
Tax effect of preferential tax rates	**–**		**(38,025)**		**(38,025)**	
Effect of reversed withholding tax at 5% on the distributable profits of the Group's subsidiaries in Mainland China	**–**		**(25,189)**		**(25,189)**	
Income not subject to tax	**(27,952)**		**(2,372)**		**(30,324)**	
Expense not deductible for tax	**72,870**		**75,211**		**148,081**	
Tax losses utilised from previous years	**–**		**(46,790)**		**(46,790)**	
Tax losses not recognised	**–**		**497,635**		**497,635**	
Tax charge at the Group's effective rate	**46**		**328,743**		**328,789**	

	2016					
	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
(Loss)/profit before tax	(83,983)		242,476		158,493	
Income tax at the statutory tax rate	(13,857)	16.5	60,619	25.0	46,762	29.5
Tax effect of preferential tax rates	–		(43,082)		(43,082)	
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	–		23,650		23,650	
Income not subject to tax	(19,349)		–		(19,349)	
Expense not deductible for tax	22,084		8,759		30,843	
Tax losses utilised from previous years	–		(109,824)		(109,824)	
Tax losses not recognised	11,122		272,566		283,688	
Tax charge at the Group's effective rate	–		212,688		212,688	

11. INCOME TAX EXPENSE (Continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. On 27 October 2017, the Company and a subsidiary of the Group obtained Hong Kong Special Administrative Region Certificate of Resident Status and could entitle 5% preferential withholding tax rate subject to the dividends for the years 2015, 2016 and 2017. Thus, the Group reversed withholding tax of RMB25,189,000 in the consolidated statement of profit or loss which was previously accrued for the years 2015 and 2016 by applying a lower withholding tax rate. At 31 December 2017, save for the withholding tax provided on the dividends declared out of the current year's profits by the Group's subsidiaries established in Mainland China, no deferred tax has been recognised for the remaining unremitted earnings in these subsidiaries that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately to RMB7,890,452,000 at 31 December 2017 (2016: RMB8,068,348,000).

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earning per share is based on the profit or loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 21,390,244,000 (2016: 20,797,082,000) in issue during the year.

The calculation of the diluted (loss)/earning per share is based on the profit or loss for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted loss per share is the weighted average number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the years ended 31 December 2017 and 2016 as the impact of the warrants and share options outstanding had no dilutive effect on the basic (loss)/earnings per share amounts presented.

The calculations of the basic and diluted (loss)/earnings per share are based on:

	2017 **RMB'000**	2016 RMB'000
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted (loss)/earnings per share calculation	**(449,895)**	325,139

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

	Number of shares	
	2017 '000	2016 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted (loss)/earnings per share calculation	**21,390,244**	20,797,082

13. PROPERTY AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Aircraft under a financial lease RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and 1 January 2017:							
Cost	5,915,249	2,994,261	2,078,640	108,854	188,944	–	11,285,948
Accumulated depreciation and impairment	(1,127,796)	(2,055,763)	(1,372,056)	(85,392)	–	–	(4,641,007)
Net carrying amount	4,787,453	938,498	706,584	23,462	188,944	–	6,644,941
At 1 January 2017, net of accumulated depreciation and impairment:	4,787,453	938,498	706,584	23,462	188,944	–	6,644,941
Additions	–	288,641	104,738	11,246	353,705	–	758,330
Acquisition of subsidiaries	–	6,110	16,196	–	20,806	232,428	275,540
Disposals	–	(76,249)	(15,227)	(3,695)	–	–	(95,171)
Impairment	–	(8,189)	(366,015)	–	–	–	(374,204)
Depreciation provided during the year	(164,746)	(366,958)	(244,833)	(9,283)	–	(25,510)	(811,330)
Transfers from construction in progress	–	–	210,125	–	(210,125)	–	–
At 31 December 2017, net of accumulated depreciation and impairment	4,622,707	781,853	411,568	21,730	353,330	206,918	6,398,106
At 31 December 2017:							
Cost	5,915,249	2,850,218	2,220,805	104,371	353,330	340,138	11,784,111
Accumulated depreciation and impairment	(1,292,542)	(2,068,365)	(1,809,237)	(82,641)	–	(133,220)	(5,386,005)
Net carrying amount	4,622,707	781,853	411,568	21,730	353,330	206,918	6,398,106

13. PROPERTY AND EQUIPMENT (Continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016						
At 1 January 2016:						
Cost	3,701,118	2,071,229	1,671,219	91,913	166,313	7,701,792
Accumulated depreciation and impairment	(802,847)	(1,384,750)	(1,045,785)	(75,165)	–	(3,308,547)
Net carrying amount	2,898,271	686,479	625,434	16,748	166,313	4,393,245
At 1 January 2016, net of accumulated depreciation and impairment:	2,898,271	686,479	625,434	16,748	166,313	4,393,245
Additions	301,501	393,403	114,098	10,675	197,136	1,016,813
Acquisition of subsidiaries	1,738,558	338,977	51,238	5,214	–	2,133,987
Disposals	–	(100,683)	(32,917)	(3,659)	–	(137,259)
Impairment	–	(37,852)	–	–	–	(37,852)
Depreciation provided during the year	(150,877)	(341,826)	(225,774)	(5,516)	–	(723,993)
Transfers from construction in progress	–	–	174,505	–	(174,505)	–
At 31 December 2016, net of accumulated depreciation and impairment	4,787,453	938,498	706,584	23,462	188,944	6,644,941
At 31 December 2016:						
Cost	5,915,249	2,994,261	2,078,640	108,854	188,944	11,285,948
Accumulated depreciation and impairment	(1,127,796)	(2,055,763)	(1,372,056)	(85,392)	–	(4,641,007)
Net carrying amount	4,787,453	938,498	706,584	23,462	188,944	6,644,941

Certain of the buildings of the Group in Mainland China were pledged as security for bills payable (note 28) and interest-bearing bank loans (note 30) of the Group as at 31 December 2017. The aggregate carrying value of the Group's pledged buildings attributable to the Group as at 31 December 2017 amounted to RMB1,399,953,000 (31 December 2016: RMB1,948,829,000).

During 2017, in view of the fact that the business of certain subsidiaries of the Group, which mainly include GOME-on-line, has been loss making in recent years and their underperformance in the current year, management determined that indicators of impairment existed for the related cash-generating units and impairment losses of RMB374,204,000 were recognised for the related leasehold improvements, equipment and fixtures.

The recoverable amount of the related cash-generating units was insignificant and the value in use was calculated by applying discount rate of 13.6%.

14. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**605,030**	599,832
Additions	**280,939**	–
Net gain from a fair value adjustment	**28,129**	5,198
Exchange realignment	**(12,813)**	–
Carrying amount at 31 December	**901,285**	605,030

Investment properties comprise commercial properties in Mainland China and New York, the United States of America, and an industrial property and a car park in Hong Kong that are leased to third parties.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Beijing Northern Yashi Assets Appraisal Co., Ltd. and B.I. Appraisals Limited, independent firms of professionally qualified valuers, using the income approach and direct comparison approach, as at 31 December 2017. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The Group's management has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

As at 31 December 2017, investment properties of approximately RMB35,944,000 (31 December 2016: RMB34,885,000) were located in Hong Kong under medium term leases, investment properties of approximately RMB271,784,000 (31 December 2016: Nil) were located in New York, the United States of America and investment properties of approximately RMB593,557,000 (31 December 2016: RMB570,145,000) were located in Mainland China under medium term leases.

Certain of the investment properties of the Group in Mainland China were pledged as security for bills payable (note 28) and interest-bearing bank loans (note 30) of the Group as at 31 December 2017. The aggregate fair value of the Group's pledged investment properties as at 31 December 2017 amounted to RMB482,072,000 (31 December 2016: RMB481,397,000).

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2017 using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	**865,341**	**865,341**
Industrial property and car park	–	–	**35,944**	**35,944**
	–	–	**901,285**	**901,285**

	Fair value measurement as at 31 December 2016 using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	570,145	570,145
Industrial property and car park	–	–	34,885	34,885
	–	–	605,030	605,030

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000	Industrial property and car park RMB'000
Carrying amount at 1 January 2016	569,420	30,412
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	725	4,473
Carrying amount at 31 December 2016 and 1 January 2017	570,145	34,885
Additions	**280,939**	**–**
Exchange realignment	**(10,403)**	**(2,410)**
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**24,660**	**3,469**
Carrying amount at 31 December 2017	**865,341**	**35,944**

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range of weighted average 2017	2016
Commercial properties located in Mainland China	Income approach	Estimated rental value (RMB per square metre and per month)	**39.0 – 285.0**	37.5 – 285.0
		Rental growth (per annum)	**1.5% – 2.0%**	1.5% – 2.0%
		Long term vacancy rate	**3.0% – 5.0%**	3.0% – 5.0%
		Discount rate	**6.0%**	6.0%
Industrial property and car park located in Hong Kong	Direct comparison approach	Market value (RMB per square metre)	**27,143**	26,353
Commercial properties located in New York	Direct comparison approach	Market value (RMB per square metre)	**211,506**	Not Applicable

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

Under the income approach, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase or decrease in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase or decrease in the fair value of the investment properties. A significant increase or decrease in the long term vacancy rate and the discount rate in isolation would result in a significant decrease or increase in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the discount rate and long term vacancy rate.

Under the direct comparison approach, fair value is estimated by making reference to comparable sale evidence as available in the relevant market by taking into account the current rent and licence fee passing and the reversionary income potential of the property. A significant increase or decrease in the market value would result in a significant increase or decrease in the fair value of the investment properties.

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15. GOODWILL

	2017 RMB'000	2016 RMB'000
At 1 January:		
Cost	**14,373,742**	7,170,907
Accumulated impairment	**(48,776)**	(25,790)
Net carrying amount	**14,324,966**	7,145,117
Cost at 1 January, net of accumulated impairment	**14,324,966**	7,145,117
Acquisition of the Artway Group and Tengda Business	**–**	7,202,835
Impairment during the year	**(214,966)**	(22,986)
At 31 December	**14,110,000**	14,324,966
At 31 December:		
Cost	**14,373,742**	14,373,742
Accumulated impairment	**(263,742)**	(48,776)
Net carrying amount	**14,110,000**	14,324,966

15. GOODWILL (Continued)

Impairment testing of goodwill

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2017 RMB'000	2016 RMB'000
China Paradise Electronics Retail Limited ("China Paradise") 永樂（中國）電器銷售有限公司	**3,920,393**	3,920,393
Beijing Dazhong Home Appliances Retail Co., Ltd. 北京市大中家用電器連鎖銷售有限公司	**3,130,136**	3,130,136
Shaanxi Cellstar Telecommunication Retail Chain Company Limited 陝西蜂星電訊零售連鎖有限責任公司	**60,428**	60,428
Shenzhen GOME Electrical Appliances Company Limited and Guangzhou GOME Electrical Appliances Company Limited 深圳市國美電器有限公司和廣州市國美電器有限公司	**22,986**	22,986
Shandong Longji Island Construction Company Limited 山東龍脊島建設有限公司	**8,000**	8,000
Wuhan GOME Electrical Appliances Company Limited 武漢國美電器有限公司	**7,300**	7,300
Jiangsu Pengrun GOME Electrical Appliance Company Limited and Nanjing Pengze Investment Company Limited 江蘇鵬潤國美電器有限公司和南京鵬澤投資有限公司	**5,874**	5,874
Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") 北京匯海天韻商務諮詢有限公司	**15,790**	15,790
Artway Development Limited 藝偉發展有限公司	**6,987,869**	6,987,869
Tengda Technology Co., Ltd. ("Tengda") 江西騰達科技有限公司	**214,966**	214,966
	14,373,742	14,373,742
Impairment	**(263,742)**	(48,776)
	14,110,000	14,324,966

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections are prepared based on financial budgets as approved by management which cover a period of five years. The discount rate applied to the cash flow projections is 13.60% (2016: 13.10%).

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15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2016: 3%).

During 2017, in view of the underperformance of Tengda, an impairment loss of RMB214,966,000 was recognised for the goodwill in relation to the cash-generating unit with a carrying amount of RMB214,966,000.

As at 31 December 2017, the impairment was mainly related to Tengda, Shenzhen GOME Electrical Appliances Company Limited and Guangzhou GOME Electrical Appliances Company Limited and Huihai in the amount of RMB214,966,000, RMB22,986,000 and RMB15,790,000, respectively.

Key assumptions used in the value in use calculations

The following describes the key assumptions of the cash flow projections.

Store revenue:	the basis used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC.
Gross margins:	the gross profit margins are based on the historical margin achieved in the past.
Expenses:	the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level.
Discount rates:	the discount rates used are after tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group in the current year.

Sensitivity to changes in assumptions

With regard to the assessment of the values in use of the respective cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the respective carrying values, including goodwill, of the cash-generating units to exceed the respective recoverable amounts.

16. OTHER INTANGIBLE ASSETS

	Trademarks RMB'000 (i)
31 December 2017	
At 31 December 2016 and 1 January 2017:	
Cost	**692,607**
Accumulated amortisation	**(260,204)**
Net carrying amount	**432,403**
Cost at 1 January 2017, net of accumulated amortisation	**432,403**
Amortisation provided during the year	**(43,881)**
At 31 December 2017	**388,522**
At 31 December 2017:	
Cost	**692,607**
Accumulated amortisation	**(304,085)**
Net carrying amount	**388,522**
31 December 2016	
At 1 January 2016:	
Cost	440,959
Accumulated amortisation	(198,596)
Net carrying amount	242,363
Cost at 1 January 2016, net of accumulated amortisation	242,363
Acquisition of the Artway Group	229,740
Amortisation provided during the year	(39,700)
At 31 December 2016	432,403
At 31 December 2016:	
Cost	692,607
Accumulated amortisation	(260,204)
Net carrying amount	432,403

16. OTHER INTANGIBLE ASSETS (Continued)

(i) The cost mainly represents the fair value of the trademarks arising from the acquisition of 常州金太陽至尊電器有限公司 ("Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd.") of RMB25,915,000 in 2005, the fair value of the trademark arising from the acquisition of China Paradise of RMB129,000,000 in 2006, the fair value of the trademark arising from the acquisition of the retailing business of Dazhong Appliances of RMB284,319,000 and the fair value of the trademark arising from the acquisition of the Artway Group of RMB229,740,000, which are amortised on the straight-line basis over management's estimate of their useful lives of 10 years, 20 years, 20 years and 10 years, respectively.

17. INVESTMENTS IN ASSOCIATES

	Note	2017 RMB'000	2016 RMB'000
Share of net assets		**103,908**	17,000
Goodwill on acquisition	*(i)*	**97,776**	–
		201,684	17,000

The Group's shareholdings in the associates all comprise equity shares held through wholly-owned subsidiaries of the Company.

Note:

(i) On 27 December 2017, the Group acquired 21.65% of equity interest of 深圳十分到家服務科技有限公司 ("Shenzhen Shifen Daojia Service Technology Co,, Ltd."), which is a company mainly providing home appliance repairing and maintenance service to the customers in Mainland China. The initial investment cost exceeded the Group's share of net assets was recognized as goodwill on acquisition.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000
Share of the associates' loss for the year	**(19,976)**	–
Share of the associates' total comprehensive income	**(19,976)**	–
Aggregate carrying amount of the Group's investments in the associates	**201,684**	17,000

18. OTHER INVESTMENTS

	Notes	2017 RMB'000	2016 RMB'000
Listed equity investments in Mainland China, at fair value			
Investment in Gome Telecom	*(i)*	**475,851**	685,385
Investment in MTC	*(ii)*	**270,234**	300,730
Unlisted equity investment, at cost	*(iii)*	**1,210,235**	20,931
		1,956,320	1,007,046

Notes:

(i) The balance as at 31 December 2017 represented the fair value of the Group's investments in 39,987,400 shares, representing approximately 15.84% of the outstanding issued shares of 國美通訊設備股份有限公司 (Gome Telecom Equipment Co., Ltd. ("Gome Telecom"), formerly known as "Sanlian Commercial Co., Ltd."). Gome Telecom is a company established in the PRC and listed on the Shanghai Stock Exchange. The Group classified these investments as available-for-sale financial assets at 31 December 2017 and 31 December 2016. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investments are derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of profit or loss.

Of the seven directors of Gome Telecom, two were nominated by the Group as at 31 December 2017 (31 December 2016: two). With reference to Gome Telecom's memorandum and articles of association and by taking into account the current shareholding structure of Gome Telecom, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Gome Telecom or appoint directors to Gome Telecom and thus the Group does not have control or significant influence over Gome Telecom.

As at 31 December 2017, the fair value of this investment was based on the quoted market price, which was RMB11.90 (31 December 2016: RMB17.14) per share. During 2017, the loss in respect of this investment recognised in other comprehensive income amounted to RMB209,534,000 (2016: gain of RMB90,372,000).

During 2017, Gome Telecom sold products to the Group amounting to RMB44,450,000 (2016: Nil) and leased properties to the Group with a rental expense of RMB25,619,000 (2016: Nil).

(ii) During 2016, the Group subscribed 30,193,814 shares of 深圳兆馳股份有限公司 ("Shenzhen MTC Co., Ltd." or "MTC") with a consideration of RMB370,780,000 representing approximately 1.67% of the issued shares. MTC is a company established in the PRC and listed on the Shenzhen Stock Exchange. The Group classified this investment as available-for-sale financial assets at 31 December 2017 and 31 December 2016. After initial recognition, the available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income until the investment are derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of profit or loss.

On 8 June 2017, MTC declared and paid cash dividend of RMB0.25 for every 10 shares and stock dividend of 15 shares for every 10 shares held by the shareholders. As at 31 December 2017, the Group held 75,484,535 shares, which represented 1.67% of the issued shares of MTC.

As at 31 December 2017, the fair value of this investment was based on the quoted market price, which was RMB3.58 (31 December 2016: RMB9.96) per share. During 2017, the loss in respect of this investment recognised in other comprehensive income amounted to RMB30,496,000 (2016: RMB70,050,000).

(iii) As at 31 December 2017, unlisted equity investments with carrying amount of RMB1,210,235,000 (2016:RMB20,931,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. Management of the Group has no plan to dispose of these investment at the current stage.

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19. LEASE PREPAYMENTS AND DEPOSITS

	Notes	2017 RMB'000	2016 RMB'000
Prepaid land lease payments	*(i)*	**1,299,063**	1,253,799
Rental prepayments and deposits	*(ii)*	**843,665**	268,149
		2,142,728	1,521,948

Notes:

(i) Prepaid land lease payments

	Note	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January		**1,285,888**	1,177,679
Additions		**80,166**	131,283
Recognised during the year		**(33,300)**	(23,074)
Carrying amount at 31 December		**1,332,754**	1,285,888
Current portion included in prepayments, deposits and other receivables	*24*	**(33,691)**	(32,089)
Non-current portion		**1,299,063**	1,253,799

The leasehold land is held under medium term leases and located in Mainland China.

(ii) The balances at 31 December 2017 and 2016 represented the non-current portion of rental prepayments and deposits.

20. ENTRUSTED LOAN

	2017 RMB'000	2016 RMB'000
Entrusted loan	**500,000**	500,000

The entrusted loan are provided to Gome Telecom, repayable in full in October 2019 and bears interest at 6% per annum which is comparable to the market interest rate.

21. DEFERRED TAX

	Note	Balance at 1 January 2017 RMB'000	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2017 RMB'000
Deferred tax assets:				
Tax losses	*(i)*	13,027	(1,638)	11,389
Fair value adjustment on equity investments at fair value through profit or loss		14,368	(4,044)	10,324
Fair value adjustment on investment properties		6,043	(1,780)	4,263
Fair value adjustment on transfer of own-occupied properties to investment properties		22,813	–	22,813
		56,251	(7,462)	48,789
Deferred tax liabilities:				
Fair value adjustment arising from acquisition of subsidiaries		382,670	(16,645)	366,025
Fair value adjustment on equity investments at fair value through profit or loss		–	30,236	30,236
Fair value adjustment on investment properties		21,273	4,076	25,349
Fair value adjustment on transfer of own-occupied properties to investment properties		39,155	–	39,155
		443,098	17,667	460,765

21. DEFERRED TAX (Continued)

	Note	Balance at 1 January 2016 RMB'000	Acquisition of Artway Group RMB'000	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2016 RMB'000
Deferred tax assets:					
Tax losses	*(i)*	11,280	12,446	(10,699)	13,027
Fair value adjustment on equity investments at fair value through profit or loss		–	-	14,368	14,368
Fair value adjustment on investment properties		6,047	-	(4)	6,043
Fair value adjustment on transfer of own-occupied properties to investment properties		22,813	-	–	22,813
		40,140	12,446	3,665	56,251
Deferred tax liabilities:					
Fair value adjustment arising from acquisition of subsidiaries		99,372	297,577	(14,279)	382,670
Fair value adjustment on investment properties		21,096	–	177	21,273
Fair value adjustment on transfer of own-occupied properties to investment properties		39,155	–	–	39,155
		159,623	297,577	(14,102)	443,098

Note:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB684 million (2016: RMB684 million), that are available indefinitely, and in the PRC of RMB5,252 million (2016: RMB5,429 million), that will expire in one to five years, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2017, save for the withholding tax provided on the dividends declared out of the current year's profits by the Group's subsidiaries established in Mainland China, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the remaining unremitted earnings in these subsidiaries that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB7,890,452,000 at 31 December 2017 (2016: RMB8,068,348,000).

There are income tax consequences attaching to the payments of dividends by the Company to its shareholders.

22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Merchandise for resale	**11,022,120**	11,368,631
Consumables	**233,327**	237,327
	11,255,447	11,605,958

As at 31 December 2017, the Group's inventories amounting to RMB500 million (31 December 2016: RMB567 million) were pledged as security for the Group's bills payable (note 28).

23. TRADE AND BILLS RECEIVABLES

All of the Group's sales are on a cash basis except for certain bulk sales of merchandise which are credit sales. The credit term offered to customers is generally one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Management considers that there is no significant concentration of credit risk.

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

	2017 RMB'000	2016 RMB'000
Outstanding balances, aged:		
Within 3 months	**140,556**	126,513
3 to 6 months	**45,358**	28,284
6 months to 1 year	**456**	8,111
	186,370	162,908

An ageing analysis of trade and bills receivables that are not considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**70,278**	63,257
Less than 3 months past due	**92,957**	77,398
Over 3 months past due	**23,135**	22,253
	186,370	162,908

23. TRADE AND BILLS RECEIVABLES (Continued)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to mainly corporate customers which have long business relationship with the Group. Management is of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in credit quality of the individual debtors and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The balances are unsecured and non-interest-bearing.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2017 RMB'000	2016 RMB'000
Prepayments		**1,205,845**	995,894
Advances to suppliers		**1,935,982**	2,478,959
Other deposits and receivables		**1,877,562**	1,224,259
Current portion of prepaid land lease payments	*19*	**33,691**	32,089
		5,053,080	4,731,201

25. DUE FROM/TO RELATED COMPANIES

Due from related companies

	Notes	2017 RMB'000	2016 RMB'000
Due from an associate	*(i)*	**49,000**	–
Due from other related companies	*(ii)*	**300,953**	239,392
		349,953	239,392

25. DUE FROM/TO RELATED COMPANIES (Continued)

Due to related companies

	Notes	2017 RMB'000	2016 RMB'000
Current liabilities:			
Payables to the GOME Xinda*	*(iii)*	**38,168**	131,852
Current portion of non-current item	*41(a)(vi)*	**47,463**	–
Payables to other related companies	*(ii)*	**36,189**	529,575
		121,820	661,427
Non-current liabilities:			
Payables to the GOME Holding**	*41(a)(vi)*	**1,586,997**	–
Payables to the GOME Financial**	*41(a)(vi)*	**78,148**	–
		1,665,145	–
Current portion		**(47,463)**	–
Non-current portion		**1,617,682**	–

* 國美信達保理有限公司 ("GOME Xinda Commercial Factoring Co., Ltd." or "GOME Xinda") is a subsidiary of 國美金融科技有限公司 ("Gome Finance Technology Co., Ltd.", 00628.HK), which is a company listed in The Stock Exchange of Hong Kong Limited and owned by Ms. Du Juan, who is the spouse of Mr. Wong.

** 國美控股集團有限公司 ("GOME Holding Group Company Limited" or "GOME Holding") and 國美金控投資有限公司 ("GOME Financial Holding Investment Co., Ltd." or "GOME Financial") are owned by Mr. Wong.

(i) On 29 November 2017, GOME Appliance entered into a loan agreement with Gome Telecom Zhejiang amounted to RMB49 million, bearing annual interest of 5% with period of one year.

(ii) These balances were interest-free, unsecured and have no fixed terms of repayment.

(iii) The suppliers of the Group contracted with GOME Xinda for factoring business and transferred the right of receivables to GOME Xinda. The amount of RMB38,168,000 due to a related party recorded on the consolidated statement of financial position arose from this arrangement.

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000
Listed equity investments, at market value	**3,748,709**	1,333,529

During the year, the Group had made additional investments of approximately RMB3,397 million in stock markets. These equity investments were classified as financial assets designated upon initial recognition as at fair value through profit or loss by management and measured at market value. As at the date of approval of the financial statements, the market value of these equity investments was RMB3,905 million.

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27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**8,297,026**	12,603,870
Time deposits	**7,682,219**	6,015,686
	15,979,245	18,619,556
Less: Pledged time deposits for bills payable	**(4,467,299)**	(4,679,204)
Pledged time deposits for interest-bearing bank loans	**(2,104,320)**	(703,600)
Interest reserve on bonds payable	**(163,782)**	–
	(6,735,401)	(5,382,804)
Cash and cash equivalents	**9,243,844**	13,236,752

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB14,443,092,000 (31 December 2016: RMB17,669,381,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank balances of the Group earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group are made for varying periods of between one day and three months, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

28. TRADE AND BILLS PAYABLES

	2017 **RMB'000**	2016 RMB'000
Trade payables	**8,040,453**	8,529,553
Bills payable	**14,798,440**	15,368,853
	22,838,893	23,898,406

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the goods receipt date, is as follows:

	2017 **RMB'000**	2016 RMB'000
Within 3 months	**12,208,312**	15,185,137
3 to 6 months	**8,939,643**	7,569,643
Over 6 months	**1,690,938**	1,143,626
	22,838,893	23,898,406

The Group's bills payable are secured by the pledge of certain of the Group's assets as follows:

(i) time deposits (note 27);

(ii) inventories (note 22);

(iii) buildings (note 13); and

(iv) investment properties (note 14).

The trade and bills payables are non-interest-bearing and are normally settled on terms of one to six months.

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29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Customers' deposits	**520,484**	610,920
Deferred revenue *(note)*	**170,422**	134,386
Other payables and accruals	**3,605,804**	3,187,205
	4,296,710	3,932,511

Note:

Deferred revenue represents the deferral of certain revenue amounts on sales transactions made to customers under the Group's customer loyalty points programme, and is released to the consolidated statement of profit or loss upon the customer's redemption of the loyalty points or upon the expiry date of the loyalty points. A reconciliation of the deferred revenue is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**134,386**	79,411
Acquisition of Artway Group	**–**	29,534
Additions during the year	**841,151**	885,659
Release upon redemption	**(696,855)**	(733,230)
Release upon expiry	**(108,260)**	(126,988)
At 31 December	**170,422**	134,386

30. INTEREST-BEARING BANK LOANS

	2017 RMB'000	2016 RMB'000
Current:		
Bank loans – secured	**3,025,262**	520,164
Non-current:		
Bank loans – secured	**96,938**	1,470,050
	3,122,200	1,990,214

30. INTEREST-BEARING BANK LOANS (Continued)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans		
Within one year or on demand	**3,025,262**	520,164
In the second year	**–**	1,470,050
Beyond five years	**96,938**	–
	3,122,200	1,990,214

The current bank loans as at 31 December 2017 comprised:

i) bank loans of US$152,500,000 (equivalent to RMB996,205,000) bearing interest at 3-month LIBOR plus 0.75% to 0.9%, which were secured by the Group's buildings (note 13) and investment properties (note 14);

ii) a bank loan of JPY50,000,000 (equivalent to RMB2,894,000) bearing fixed annual interest at 0.53%; and

iii) a bank loan of EUR258,937,000 (equivalent to RMB2,026,163,000) bearing interest at 1 year EURIBOR plus 0.7%, which was secured by the pledged deposits (note 27).

The non-current bank loan as at 31 December 2017 was a bank loan of RMB96,938,000 from Agricultural Bank of China bearing interest at a 5-year benchmark interest rate of the People's Bank of China, which was secured by the Group's land use rights.

The carrying amounts of the bank loans approximate to their fair values.

31. BONDS PAYABLE

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000 million, RMB300 million and RMB1,700 million on the Shanghai Stock Exchange, which are repayable on 7 January 2022, 28 January 2022 and 10 May 2022, respectively. These bonds could be redeemed by the holder and the earliest repayment dates are 7 January 2019, 28 January 2019 and 10 May 2019, respectively. The net proceeds after deducting the transaction cost of RMB105,232,000 was RMB4,894,768,000. The interests are paid on an annual basis.

On 8 December 2016, the Group issued non-public bonds at par values of RMB4,000 million, which is repayable on 8 December 2022. The bonds could be redeemed by the holder and the earliest repayment date is 8 December 2018. The net proceeds after deducting the transaction cost of RMB60,000,000 was RMB3,940,000,000. The interests are paid on an annual basis.

31. BONDS PAYABLE (Continued)

On 10 March 2017 and 23 June 2017, the Group issued overseas bonds in an aggregate principal amount of US$400 million (equivalent to RMB2,777,143,000) and US$100 million with bonds premium of US$625,000 (equivalent to RMB686,735,000), respectively. These two sets of bonds form a single series which is listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The net proceeds after deducting the transaction cost of RMB40,833,000 was RMB3,423,045,000. These bonds bore interest from 10 March 2017 at 5.0% per annum payable semi-annually in arrears on 10 March and 10 September of each year, beginning 10 September 2017. Unless previously redeemed, or purchased or cancelled, these bonds will be redeemed at their principal amount on 10 March 2020. The Group may redeem all, but not less than all, of these bonds at a price equal to their principal amount plus accrued and unpaid interest upon certain changes in the tax laws of certain jurisdiction. Upon the occurrence of certain conditions as described in the announcements dated on 14 March and 27 June 2017, the Group must make an offer to repurchase all bonds outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of repurchase.

After initial recognition, these bonds are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest expense calculated based on the effective interest rate was RMB597,451,000 which was included in finance costs of the consolidated statement of profit or loss.

The movements of bonds payable during the year are as follows:

	RMB'000
Carrying amount as at 1 January 2017	8,849,485
Interest reclassified to current portion in previous year	192,158
Additions	3,423,045
Interest expenses during the year	597,451
Interest paid during the year	(507,611)
Exchange differences	(196,018)
	12,358,510
Less: Interest to be paid within one year	(243,327)
Current portion included in current liabilities	(3,949,387)
Included under non-current liabilities as at 31 December 2017	8,165,796

32. FINANCE LEASE PAYABLE

The Group has a commitment under a finance lease agreement in respect of an aircraft, which has been recognised as property and equipment. This lease has a term of 5 years expiring in 2019. The Group has made an assessment on the classification of the leased aircraft pursuant to IAS 17 and classified this lease arrangement as a finance lease. It met one or more of the criteria as set out in IAS 17 (i.e. the leaser transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becoming exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; and at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset).

As at 31 December 2017, the total minimum future payments under the finance lease and its present value is as follows:

	31 December 2017	
	Minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000
Amounts payable:		
Within one year	53,666	52,559
In the second year	13,074	12,381
Total minimum finance lease payments	66,740	64,940
Future finance charges	(1,800)	
Total net finance lease payables	64,940	
Portion classified as current liabilities	(51,994)	
Non-current portion	12,946	

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33. ISSUED CAPITAL

Shares	2017 HK$'000	2016 HK$'000
Issued and fully paid: 21,557,627,422 (2016: 21,967,465,422) ordinary shares	**538,941**	549,187

A summary of movements in the Company's share capital is as follows:

Shares	Note	Number of shares '000	HK$'000	Equivalent to RMB'000
At 1 January 2016		16,961,573	424,040	423,268
Issue of shares		5,500,000	137,500	114,572
Shares repurchased		(494,108)	(12,353)	(10,531)
At 31 December 2016 and 1 January 2017		21,967,465	549,187	527,309
Shares repurchased	*(i)*	**(409,838)**	**(10,246)**	**(8,987)**
At 31 December 2017		**21,557,627**	**538,941**	**518,322**

Note:

(i) The Company repurchased 409,838,000 (2016: 494,108,000) of its shares on the Stock Exchange for a total consideration of RMB363,351,000 (2016: RMB393,398,000). The purchased shares were cancelled during the year and this cancellation resulted in the decrease of the issued shares of RMB8,987,000 (2016: RMB10,531,000) and share premium of RMB354,364,000 (2016: RMB382,867,000).

34. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 15 April 2005 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees, executives and officers of the Company (including executive and non-executive directors of the Company) or any of the subsidiaries and business consultants, business partners, suppliers, customers, agents, financial or legal advisers, debtors and creditors who the board of directors of the Company considers, in its sole discretion, will contribute or have contributed to the Company or any of the subsidiaries.

The Scheme shall be valid and effective for the period (the "Scheme Period") commencing on the Adoption Date and ending on the day immediately preceding the tenth anniversary of the Adoption Date (both dates inclusive). The options granted prior to the end of the Scheme Period but not yet exercised shall continue to be valid and exercisable in accordance with the Scheme.

34. SHARE OPTION SCHEME (Continued)

The maximum number of shares in respect of which options may be granted under the Scheme to any eligible participant shall not, in any 12-month period up to the offer date, exceed 1% of the number of shares of the Company in issue on the offer date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director of the Company who is the relevant eligible participant). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and in any event such period of time shall not exceed a period of ten years commencing on the commencement date, being the date upon which the option is deemed to be granted and accepted.

The exercise price in relation to each option offered shall be determined by the board of directors of the Company in its absolute discretion but in any event must not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the offer date; (b) the average of the official closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (c) the nominal value of a share of the Company.

Share options do not confer right on the holders to dividends or to vote at shareholders' meetings.

According to the board resolution on 31 August 2012, changes were made to the Scheme including the exercise period of the share options and performance targets to vest the share options.

Upon the modification, the total increase in fair value of the then outstanding share options was approximately RMB6 million. This additional cost would be spread over the period from the date of modification until the vesting date of the modified award, which might not be the same as that of the original award.

Pursuant to the board of directors' resolution dated 11 November 2016, the board approved the extension of the exercise period to 15 November 2017. As at 31 December 2017, all options under the Scheme expired, and thus no share option expense was recognised during the year ended 31 December 2017 (2016: RMB337,000). There were no share options exercised during the year.

34. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.90**	**79,545**	1.90	91,077
Expired during the year	**1.90**	**(79,545)**	1.90	(11,532)
At 31 December	**1.90**	**–**	1.90	79,545

35. TREASURY SHARES

	Number of shares '000	HK$'000	Equivalent to RMB'000
At 1 January 2016	–	–	–
Repurchase	288,153	298,128	257,495
At 31 December 2016 and 1 January 2017	288,153	298,128	257,495
Repurchase	**200,000**	**175,051**	**147,792**
At 31 December 2017	**488,153**	**473,179**	**405,287**

35. TREASURY SHARES (Continued)

Pursuant to the board of director's resolution date on 3 October 2016, a restricted share award scheme (the "New Scheme") was approved and the maximum amount of the fund to be contributed by the Company for purchasing the Company's shares (the "Shares") for the pool of the New Scheme is initially set at HK$2 billion. The maximum amount may be refreshed for such or other amount and at such time as determined by the board of directors after having taking into regard the results and all relevant circumstances and affairs of the Group.

Under the New Scheme, certain SARs will be granted to selected individual being a director (including executive and non-executive director), employee, officer, agent or consultant of the Group (the "Selected Participants"): (1) to recognize and motivate the contributions by Selected Participants and to give incentives there to in order to retain them for the continual operation and development of the Group (2) to attract suitable personnel for further development of the Group; and (3) to provide certain employees with a direct economic interest in attaining a long-term employer-employee relationship between the Group and certain employees.

The Shares will be acquired by an independent trustee (the "Trustee") at the cost of the Company and be held in trust for the Selected Participants until the end of each vesting period, then grant the premium above the exercise price to the Selected Participants after selling certain amount of the Shares.

During the year, the first tranche of 228,087,000 SARs (the "First Tranche") and the second tranche of 15,800,000 SARs (the "Second Tranche") were granted on 16 October 2017 and 26 December 2017, respectively. The exercisable amount of the First Tranche and the Second Tranche varied from 0-150% of the granted amount of the SARs. The exercise price was set as HK$1.05.

The vesting period of the First Tranche shall be effective for 180 days from the announcement date of the unaudited interim results for the six-month period ended 30 June 2018. The vesting period of 3,800,000, 3,900,000, 4,000,000 and 4,100,000 SARs of the Second Tranche shall be effective from the announcement date of the audited annual results for the year ended 31 December 2019, 2020, 2021 and 2022, respectively, till 2 October 2026.

During the year, the Group repurchased 200,000,000 shares from the open market with a cash consideration of HK$175,051,000 (equivalent to RMB147,792,000) for the New Scheme.

The SARs are stated at fair value, which has been determined with reference to the valuations performed by Jones Lang LaSalle IP, Inc, independent firms of professionally qualified valuers using the binomial tree model, as at 31 December 2017. The Group's management has discussions with the valuer on the valuation assumption and valuation results once a year when the valuation is performed for annual financial reporting. During the year, the Group recognised fair value of the SARs amounting to RMB9,094,000 through profit or loss.

36. RESERVES

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity of the financial statements.

Statutory reserves

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profits after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserve funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of Mainland China domestic companies is required to transfer 10% of the profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of its registered capital of these companies. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

Share option reserve

The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount may either be transferred to the share premium account when the related options are exercised, or be transferred to the retained earnings should the related options expire or be forfeited after the vesting date.

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2017	2016
Percentage of equity interest held by non-controlling interests:		
GOME-on-line	**40%**	40%
Meixin Group	**40%**	–

	2017 RMB'000	2016 RMB'000
Loss for the year allocated to non-controlling interests:		
GOME-on-line	**(555,532)**	(368,489)
Meixin Group	**(123,093)**	–
Accumulated balances of non-controlling interests at the reporting date:		
GOME-on-line	**(1,837,025)**	(1,281,493)
Meixin Group	**(342,116)**	–

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2017	GOME-on-line RMB'000	Meixin Group RMB'000
Revenue	**4,179,713**	**31,917**
Loss for the year	**(1,388,829)**	**(307,733)**
Current assets	**2,218,962**	**809,152**
Non-current assets	**344,452**	**245,575**
Current liabilities	**(7,155,975)**	**(1,897,072)**
Non-current liabilities	**–**	**(12,946)**
Net cash flows used in operating activities	**(2,054,866)**	**(200,207)**
Net cash flows (used in)/from investing activities	**(22,018)**	**501**
Net cash flows from financing activities	**2,137,200**	**303,124**
Net increase in cash and cash equivalents	**60,316**	**103,418**

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

2016	GOME-on-line RMB'000
Revenue	10,697,435
Loss for the year	(921,222)
Current assets	1,309,048
Non-current assets	408,302
Current liabilities	(4,921,083)
Net cash flows from operating activities	556,050
Net cash flows used in investing activities	(134,031)
Net increase in cash and cash equivalents	422,019

38. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Interim:		
Cash dividend of Nil (2016: Nil) per ordinary share	**–**	–
Proposed final:		
Cash dividend of Nil (2016: Cash dividend of HK0.70 cents (equivalent to RMB0.59 fen)) per ordinary share	**–**	130,056
	–	130,056

Pursuant to the board of directors' resolution dated 27 March 2018, the board did not recommend the payment of a final dividend so as to preserve capital for funding needs of the Group.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

As disclosed in note 41(a)(vi), 北京國美銳動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong") transferred its rights of receivables from the Group to GOME Holding with the principal of RMB457 million, this amount was deemed as loan of the Group payable to GOME Holding.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank loans RMB'000	Finance lease payables RMB'000	Bonds payable and related interest payable RMB'000	Due to related companies RMB'000
At 1 January 2017	**1,990,214**	**–**	**9,041,643**	**–**
Changes from financing cash flows	**1,014,533**	**(41,716)**	**2,915,434**	**1,154,287**
Loan transfer	**–**	**–**	**–**	**457,200**
Foreign exchange movement	**117,453**	**–**	**(196,018)**	**–**
Interest expense	**–**	**4,289**	**597,451**	**53,658**
Increase arising from acquisition of a subsidiary	**–**	**102,367**	**–**	**–**
At 31 December 2017	**3,122,200**	**64,940**	**12,358,510**	**1,665,145**

40. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These have remaining lease terms ranging from 1 to 19 years and there are no restrictions placed upon the Group by entering into these lease agreements.

As at the end of the reporting period, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**3,428,141**	3,880,930
In the second to fifth years, inclusive	**8,594,502**	10,325,263
After five years	**3,329,044**	4,144,895
	15,351,687	18,351,088

40. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (Continued)

(a) Operating lease arrangements (Continued)

As lessor

The Group has leased its investment properties (note 14) and entered into commercial property sub-leases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms ranging from 1 to 10 years. A majority of the Group's leases include a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2017 RMB'000	2016 RMB'000
Within one year	**203,892**	264,821
In the second to fifth years, inclusive	**445,948**	594,820
After five years	**117,748**	165,037
	767,588	1,024,678

(b) Capital commitments

In addition to the operating lease arrangements above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Property and equipment	**156,565**	137,147

41. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in the financial statements, the Group had the following significant transactions with the related parties.

(a) The Group had the following ongoing transactions with related parties during the year:

	Notes	2017 RMB'000	2016 RMB'000
Sales to the GEAR*	*(i)*	**–**	1,535,650
Purchases from GEAR *	*(i)*	**–**	426,128
Provision of management services to GEAR*	*(ii), 6*	**–**	31,656
Rental expenses and other expenses to GOME Property and Beijing GOME**	*(iii)*	**164,066**	142,898
Rental expenses and other expenses to Beijing Xinhengji**	*(iii)*	**37,029**	2,414
Service fee to GOME Ruidong and Anxun Logistics (defined in (iv) below)	*(iv)*	**601,270**	576,654
Warehouse service income from related companies	*(iv)*	**53,305**	21,591
Warehouse service expenses to related companies	*(iv)*	**23,643**	–
Construction expenses to GOME Property**	*(v)*	**14,151**	10,377
Commission income from GOME Xinda	*(v)*	**–**	2,033
Service income from GOME Financial	*(v)*	**1,992**	1,192
Interest expenses to GOME Holding	*(vi)*	**51,291**	–
Interest expenses to GOME Financial	*(vi)*	**2,367**	–
Purchases from Beijing Lianmei***	*(vii)*	**24,707**	–
Air service income from GOME Holding	*(viii)*	**10,255**	–

* 國美電器零售有限公司 ("GOME Electrical Appliance Retail Co., Ltd." or "GEAR") is a wholly-owned subsidiary of Artway Group.

** 國美地產控股有限公司 ("GOME Property Co., Ltd." or "GOME Property") and 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") and their respective subsidiaries are owned by Mr. Wong. 北京新恒基房地產集團有限公司 ("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji") and its respective subsidiaries are owned by a close member of the family of Mr. Wong.

In 2007, Beijing Xinhengji assigned part of the ownership of the building to GOME Property and also authorised GOME Property to manage and operate the assigned building area, including receiving and collecting the rentals for this building area. Completion of registration of the ownership assignment with the relevant PRC authorities is still pending.

*** 北京聯美智科商業有限公司 ("Beijing Lianmei Zhike Business Co., Ltd." or "Beijing Lianmei") is a subsidiary of Gome Telecom (Zhejiang) Co., Ltd., which is an associate of the Group.

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41. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following ongoing transactions with related parties during the year: (Continued)

Notes:

(i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and GEAR in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase costs from the Group's third party suppliers. The related party transactions represented the transactions between both parties up to 31 March 2016 as GEAR became a subsidiary of the Company since 1 April 2016. The related transactions have been eliminated within the Group since 1 April 2016. The original master purchase and master supply agreements expired on 31 December 2015. The transitional agreements were entered into on 30 December 2015 as transitional arrangements for the Group to continue its existing operations pending approval by the independent shareholders of the Company, among other things, the acquisition of the Artway Group. The acquisition was then approved by the independent shareholders of the Company on 22 January 2016. As the transitional agreements would expire on 29 February 2016, on 25 January 2016, the Group entered into: (1) the master merchandise purchase agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by GOME Ruidong, which is beneficially owned by Mr. Wong, and GEAR to the Company's subsidiaries (including 國美電器有限公司 ("GOME Appliance") and 國美在線電子商務有限公司 ("GOME-on-line")) for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016 and 2017 and the year ending 31 December 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively, and (2) the master merchandise supply agreement for the supply of general merchandise (including electrical appliances and consumer electronic products) by GOME Appliance to GOME Ruidong, GEAR and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016 and 2017 and the year ending 31 December 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion (including the transactions between GOME Appliance and GOME-on-line, which is regarded as a connected person under the Listing Rules), respectively.

Sales and purchases represented the transactions between the Group and GEAR for the period from 1 January 2016 to 31 March 2016.

The transactions constitute continuing connected transactions under the Listing Rules.

(ii) The Group provides management services to GEAR in respect of the retailing of electrical appliances and consumer electronic products. The agreement was terminated after the acquisition of Artway Group.

The transactions constitute continuing connected transactions under the Listing Rules.

(iii) On 20 December 2016, the Group renewed the lease agreements with GOME Property with respect to the continuous use of certain properties for the period from 1 January 2017 to 31 December 2022. In the first quarter of 2017, the Group prepaid all of the rental fee amounting to RMB913,361,000. During the year ended 31 December 2017, the rental expenses incurred by the Group payable to GOME Property amounted to RMB148,736,000 (2016: RMB124,565,000, excluding GEAR).

GEAR entered into a lease agreement with GOME Property with respect to the use of certain properties for the period from 15 March 2015 to 14 March 2017. The lease agreement was terminated on 20 December 2016. During the year ended 31 December 2017, there were no rental expenses incurred by GEAR payable to GOME Property (2016: RMB2,565,000).

On 20 December 2016, the Group renewed the lease agreements with Beijing GOME with respect to continuous use of certain properties. During the year ended 31 December 2017, the rental expenses incurred by the Group payable to Beijing GOME amounted to RMB15,330,000 (2016: RMB15,768,000).

On 1 October 2016, GOME-on-line entered into a lease agreement with Beijing Xinhengji with respect to the use of certain properties. During the year ended 31 December 2017, the rental expenses incurred by the Group payable to Beijing Xinhengji amounted to RMB10,864,000 (2016: RMB2,414,000).

Meixin Group entered into several lease agreements with Beijing Xinhengji with respect to the use of certain properties. Since the acquisition on 31 March 2017, rental expenses incurred by the Group payable to Beijing Xinhengji amounted to RMB26,165,000.

The above rental expenses were recognised in the consolidated statement of profit or loss.

The transactions constitute continuing connected transactions under the Listing Rules.

41. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following ongoing transactions with related parties during the year: (Continued)

Notes: (Continued)

(iv) On 30 December 2015, the Group entered into (1) logistics services agreement pursuant to which GOME Ruidong and 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), which is beneficially owned by Mr. Wong and his associate, will provide the logistics services to GOME Appliance and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016 and 2017 and the year ending 31 December 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, (2) the warehouse service agreement pursuant to which GOME Appliance will provide the warehouse service to GOME-on-line, the GEAR, and other related companies for a period of three years from from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016 and 2017 and the year ending 31 December 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, and (3) the warehouse service agreement pursuant to which GEAR and its related companies will provide the warehouse service to GOME Appliance and GOME-on-line for a period of three years from from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016 and 2017 and the year ending 31 December 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year ended 31 December 2017, the logistics service fee and warehouse service expenses incurred by the Group payable to related companies amounted to RMB601,270,000 and RMB23,643,000 respectively (2016: RMB576,654,000 and Nil), and the warehouse service income from Anxun Logistics amounted to RMB53,305,000 (2016:RMB21,591,000).

The transactions constitute continuing connected transactions under the Listing Rules.

(v) These transactions constitute continuing connected transactions under the Listing Rules but are exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(vi) On 1 January 2017, GOME-on-line, a subsidiary of the Group, entered into a loan agreement (the "Loan Agreement One") with GOME Holding. Pursuant to the Loan Agreement One, GOME Holding agrees to provide financial support to GOME-on-line with a cap amounted to RMB1.5 billion and bears annual interest of 5% for a three-year period. During the year ended 31 December 2017, GOME Ruidong, a subsidiary of GOME Holding, lent cash of RMB857,358,000 to GOME-on-line. Meanwhile, through several three-party agreements among GOME-on-line, GOME Ruidong and GOME Holding, GOME Ruidong transferred its right of receivables due from GOME-on-line to GOME Holding. The accumulative amount of transferred receivables was RMB1,314,558,000 and deemed as loans due from GOME-on-line, which was within the cap of Loan Agreement One. During the year ended 31 December 2017, interest expense incurred by the GOME-on-line payable to GOME Holding amounted to RMB44,160,000 was recognised in the statement of profit or loss.

On 19 December 2016, Meixin entered into a loan agreement (the "Loan Agreement Two") with GOME Holding. Pursuant to the Loan Agreement Two, GOME Holding agrees to provide financial support to Meixin with a cap amounted to RMB600 million and bears annual interest of 5% for a three-year period. During the year ended 31 December 2017, GOME Holding lent cash of RMB227,343,000 to Meixin and related interest expense incurred by Meixin payable to GOME Holding amounted to RMB7,131,000 was recognised in the statement of profit or loss.

On 1 January 2017, Meixin entered into a loan agreement (the "Loan Agreement Three") with GOME Financial. Pursuant to the Loan Agreement Three, GOME Financial agrees to provide financial support to Meixin with a cap amounted to RMB200 million and bears annual interest of 5% for a three-year period. During the year ended 31 December 2017, GOME Financial lent cash of RMB75,781,000 to Meixin and related interest expense incurred by Meixin payable to GOME Financial amounted to RMB2,367,000 was recognised in the statement of profit or loss.

The transactions constitute continuing connected transactions under the Listing Rules but are exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(vii) During the year ended 31 December 2017, the Group purchased commodities from Beijing Lianmei amounted to RMB24,707,000.

The transaction does not constitute continuing connected transactions under the Listing Rules.

41. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following ongoing transactions with related parties during the year: (Continued)

Notes: (Continued)

(viii) During the year ended 31 December 2017, a subsidiary of Meixin possessed an aircraft and provided air service to GOME Holding amounted to RMB10,255,000.

The transactions constitute continuing connected transactions under the Listing Rules but are exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

All the above related party transactions were determined by mutual agreements between the involved parties after taking into account prevailing market prices. The board of directors of the Company confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(b) Commitments with related parties

On 20 December 2017, GOME Appliance entered into a lease agreement with Beijing GOME for the continuing use of a property commencing from 1 January 2018 to 31 December 2018. As the result, the Group had rental commitments with Beijing GOME amounting to RMB16,097,000 (2016: RMB16,097,000).

On 1 October 2016, GOME-on-line entered into a lease agreement with Beijing Xinhengji for the properties in Pengrun Building and has a term expiring on 9 December 2018. Meixin Group entered into a lease agreement with Beijing Xinhengji with respect to the use of certain properties before the business combination which has a term expiring on 19 December 2018. On 30 November 2017, Meixin Group renewed another lease agreement with Beijing Xinhengji which has a term expiring 24 September 2019. As at 31 December 2017, the Group had rental commitments with Beijing Xinhengji amounting to RMB66,145,000.

(c) Compensation of key management personnel of the Group:

	2017 RMB'000	2016 RMB'000
Fees	2,215	2,394
Other emoluments:		
Salaries, allowances and other expense	10,340	10,214
Pension scheme contributions	341	325
Share award expense	488	–
Equity-settled share option expense	–	164
	13,384	13,097

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017

Financial assets

	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	1,956,320	1,956,320
Entrusted loan	500,000	–	–	500,000
Equity investments at fair value through profit or loss	–	3,748,709	–	3,748,709
Trade and bills receivables	186,370	–	–	186,370
Financial assets included in prepayments, deposits and other receivables	1,877,562	–	–	1,877,562
Due from related companies	349,953	–	–	349,953
Pledged deposits	6,735,401	–	–	6,735,401
Cash and cash equivalents	9,243,844	–	–	9,243,844
	18,893,130	3,748,709	1,956,320	24,598,159

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Bonds payable	12,115,183
Interest-bearing bank loan	3,122,200
Trade and bills payables	22,838,893
Financial liabilities included in customers' deposits, other payables and accruals	2,468,807
Due to related companies	1,739,502
	42,284,585

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2016

Financial assets

	Loans and receivables RMB'000	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	1,007,046	1,007,046
Entrusted loan	500,000	–	–	500,000
Equity investments at fair value through profit or loss	–	1,333,529	–	1,333,529
Trade and bills receivables	162,908	–	–	162,908
Financial assets included in prepayments, deposits and other receivables	1,224,259	–	–	1,224,259
Due from related companies	239,392	–	–	239,392
Pledged deposits	5,382,804	–	–	5,382,804
Cash and cash equivalents	13,236,752	–	–	13,236,752
	20,746,115	1,333,529	1,007,046	23,086,690

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Bonds payable	8,849,485
Interest-bearing bank loans	1,990,214
Trade and bills payables	23,898,406
Financial liabilities included in customers' deposits, other payables and accruals	2,377,455
Due to related companies	661,427
	37,776,987

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Financial assets				
Other investments	**746,085**	986,115	**746,085**	986,115
Equity investments at fair value through profit or loss	**3,748,709**	1,333,529	**3,748,709**	1,333,529
	4,494,794	2,319,644	**4,494,794**	2,319,644

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies and short-term interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments. The fair values of entrusted loan, bonds payable and long-term interest-bearing bank loans are estimated by discounting the expected future cash flows using equivalent market interest rates. As the nominal interest rates approximate to the market interest rates, the fair values of bonds payable and long-term interest-bearing bank loans approximate to their carrying amounts.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices.

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other investments	**746,085**	**–**	**–**	**746,085**
Equity investments at fair value through profit or loss	**3,748,709**	**–**	**–**	**3,748,709**
	4,494,794	**–**	**–**	**4,494,794**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other investments	986,115	–	–	986,115
Equity investments at fair value through profit or loss	1,333,529	–	–	1,333,529
	2,319,644	–	–	2,319,644

During the year ended 31 December 2017, there were no transfers into or out of Level 1 and Level 2, and no transfers into or out of Level 3.

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 and 31 December 2016.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than other investments, comprise entrusted loan, cash and cash equivalents, pledged deposits and interest-bearing bank loans. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, trade and bills payables, finance lease payable, other receivables and payables and amounts due from/to related companies, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2017, the Group had bank borrowings of RMB3,119,306,000 with floating interest rates (2016: RMB1,990,214,000).

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Group's profit before tax (due to changes in finance costs).

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000
2017		
If interest rate increases by	**5**	**(332)**
If interest rate decreases by	**(5)**	**332**

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000
2016		
If interest rate increases by	5	(905)
If interest rate decreases by	(5)	905

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

As at 31 December 2017, the Group had cash and bank deposits of RMB1,530,258,000 (2016: RMB950,176,000), equity investments at fair value through profit or loss of RMB1,855,965,000 (2016: RMB164,738,000), interest-bearing bank loans of RMB3,025,262,000 (2016: RMB1,990,214,000) and bonds payable of RMB3,231,742,000 (2016:Nil) which were denominated in foreign currencies, mainly in US$, EUR and HK$.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US$, EUR and HK$ with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities). Other components of equity would not change.

	Change in foreign currency rate	Increase/ (decrease) in profit before tax RMB'000
2017		
If RMB weakens against US$	**5%**	**(78,056)**
If RMB strengthens against US$	**5%**	**78,056**
If RMB weakens against HK$	**5%**	**35,701**
If RMB strengthens against HK$	**5%**	**(35,701)**
If RMB weakens against EUR	**5%**	**(101,304)**
If RMB strengthens against EUR	**5%**	**101,304**

	Change in foreign currency rate	Increase/ (decrease) in profit before tax RMB'000
2016		
If RMB weakens against US$	5%	(60,145)
If RMB strengthens against US$	5%	60,145
If RMB weakens against HK$	5%	16,155
If RMB strengthens against HK$	5%	(16,155)

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 23 to the financial statements.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, pledged deposits, other receivables, entrusted loan and amounts due from related companies, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different geographical regions.

Liquidity risk

The Group monitors its risk to a shortage of funds based on the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade and bills payables, finance lease payable, due to related companies, interest-bearing bank loans and bonds payable. Management has reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period, based on contractual undiscounted payments.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2017				
Finance lease payable	**53,666**	**13,074**	**–**	**66,740**
Bonds payable	**4,460,300**	**10,253,333**	**–**	**14,713,633**
Interest-bearing bank loans	**3,037,253**	**76,795**	**37,278**	**3,151,326**
Trade and bills payables	**22,838,893**	**–**	**–**	**22,838,893**
Financial liabilities included in customers' deposits, other payables and accruals	**2,468,807**	**–**	**–**	**2,468,807**
Due to related companies	**202,704**	**1,698,383**	**–**	**1,901,087**
	33,061,623	**12,041,585**	**37,278**	**45,140,486**

	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2016				
Bonds payable	435,300	11,176,500	–	11,611,800
Interest-bearing bank loans	554,282	1,484,396	–	2,038,678
Trade and bills payables	23,898,406	–	–	23,898,406
Financial liabilities included in customers' deposits, other payables and accruals	2,377,455	–	–	2,377,455
Due to related companies	661,427	–	–	661,427
	27,926,870	12,660,896	–	40,587,766

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from other investments (note 18) and also equity investments at fair value through profit or loss (note 26) as at 31 December 2017. The Group's listed investments were valued at market price as at 31 December 2017 and 31 December 2016.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and its highest and lowest points during the year were as follows:

	31 December 2017	**High/low 2017**	31 December 2016	High/low 2016
Shanghai – A Share Index	**3,307**	**3,450/ 3,017**	3,104	3,539/ 2,638
Shenzhen – A Share Index	**11,040**	**11,715/ 9,483**	10,177	12,659/ 8,987
Hong Kong – Hang Seng Index	**29,919**	**21,883/ 30,200**	22,001	24,364/ 18,279
United States of America – Nasdaq Index	**6,903**	**7,004/ 5,398**	5,383	5,512/ 4,210
United States of America – NYSE COMPOSITE (DJ)	**12.809**	**12,886/ 11,094**	11,057	11,688/ 8,938

The following table demonstrates the sensitivity to 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the other equity investments, the impact is deemed to be on the other investment revaluation reserve and no account is given for factors such as impairment which might impact on the statement of profit or loss.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk (Continued)

	Carrying amount of equity investments RMB'000	Increase/ decrease in profit before tax RMB'000	Increase/ decrease in equity* RMB'000
2017			
Investments listed in:			
Shanghai and Shenzhen – Available-for-sale	**746,085**	**–**	**74,608**
Shanghai and Shenzhen – Equity investments at fair value through profit or loss	**1,892,744**	**189,274**	**–**
Hong Kong – Equity investments at fair value through profit or loss	**368,563**	**36,856**	**–**
United States – Equity investments at fair value through profit or loss	**1,487,402**	**148,740**	**–**
	4,494,794	**374,870**	**74,608**
2016			
Investments listed in:			
Shanghai and Shenzhen – Available-for-sale	986,115	–	98,612
Shanghai and Shenzhen – Equity investments at fair value through profit or loss	1,168,791	116,879	–
Hong Kong – Equity investments at fair value through profit or loss	164,738	16,474	–
	2,319,644	133,353	98,612

* Excluding retained earnings

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objective of the Group's capital management is to ensure that the Group has healthy capital structure in order to support the Group's stability and growth.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank loans, amounts due to related companies, trade and bills payables and customers' deposits, other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2017 **RMB'000**	2016 RMB'000
Bonds payable	**12,115,183**	8,849,485
Interest-bearing bank loans	**3,122,200**	1,990,214
Due to related companies	**1,739,502**	661,427
Trade and bills payables	**22,838,893**	23,898,406
Customers' deposits, other payables and accruals	**4,296,710**	3,932,511
Less: Cash and cash equivalents	**(9,243,844)**	(13,236,752)
Pledged deposits	**(6,735,401)**	(5,382,804)
Net debt	**28,133,243**	20,712,487
Equity attributable to owners of the parent	**19,913,125**	22,486,159
Total capital	**19,913,125**	22,486,159
Capital and net debt	**48,046,368**	43,198,646
Gearing ratio	**59%**	48%

45. EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events subsequent to 31 December 2017.

Notes to Financial Statements

31 December 2017

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**11,731,866**	11,730,828
Total non-current assets	**11,731,866**	11,730,828
CURRENT ASSETS		
Amounts due from subsidiaries	**3,873,016**	4,424,418
Prepayments and other receivables	**5,563**	3,559
Equity investments at fair value through profit or loss	**1,855,965**	164,736
Other investments	**780,810**	20,930
Pledged deposit	**268,102**	–
Cash and cash equivalents	**1,238,648**	848,554
Total current assets	**8,022,104**	5,462,197
CURRENT LIABILITIES		
Interest-bearing bank loans	**3,022,368**	1,987,234
Other payables and accruals	**63,227**	5,497
Amounts due to subsidiaries	**681,401**	1,171,100
Total current liabilities	**3,766,996**	3,163,831
NET CURRENT ASSETS	**4,255,108**	2,298,366
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,986,974**	14,029,194
NON-CURRENT LIABILITIES		
Bonds payable	**3,231,787**	–
Total non-current liabilities	**3,231,787**	–
Net assets	**12,755,187**	14,029,194
EQUITY		
Issued capital	**518,322**	527,309
Reserves *(note)*	**12,236,865**	13,501,885
Total equity	**12,755,187**	14,029,194

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Treasury shares RMB'000	Share premium RMB'000	Contributed surplus RMB'000 Note (i)	Capital reserve RMB'000	Share option reserve RMB'000 Note (ii)	Warrant reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	–	9,548,118	42,849	(830,425)	163,383	–	(49,695)	241,637	9,115,867
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	–	174,275	174,275
Issue of shares	–	5,018,248	–	–	–	–	–	–	5,018,248
Shares repurchased for cancelation	–	(382,867)	–	–	–	–	–	–	(382,867)
Shares repurchased for share award scheme	(257,495)	–	–	–	–	–	–	–	(257,495)
Equity-settled share option arrangements	–	–	–	–	337	–	–	–	337
2015 dividend paid	–	–	–	–	–	–	–	(284,211)	(284,211)
Reclassification of warrants	–	–	–	–	–	117,731	–	–	117,731
At 31 December 2016 and 1 January 2017	**(257,495)**	**14,183,499**	**42,849**	**(830,425)**	**163,720**	**117,731**	**(49,695)**	**131,701**	**13,501,885**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(630,670)**	**(630,670)**
Shares repurchased for cancellation	**–**	**(354,364)**	**–**	**–**	**–**	**–**	**–**	**–**	**(354,364)**
Shares repurchased for share award scheme	**(147,792)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(147,792)**
Share options expired	**–**	**–**	**–**	**–**	**(163,720)**	**–**	**–**	**163,720**	**–**
2016 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(132,194)**	**(132,194)**
At 31 December 2017	**(405,287)**	**13,829,135**	**42,849**	**(830,425)**	**–**	**117,731**	**(49,695)**	**(467,443)**	**12,236,865**

Notes:

(i) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the Group level, the contributed surplus is reclassified into various components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) it is, or after the payment would be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

(ii) The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount was transferred to retained earnings when the related options expire after the vesting date.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 27 March 2018.

Corporate Information

DIRECTORS

Executive Director

ZOU Xiao Chun

Non-executive Directors

ZHANG Da Zhong *(Chairman)*
HUANG Xiu Hong
YU Sing Wong

Independent Non-executive Directors

LEE Kong Wai, Conway
LIU Hong Yu
WANG Gao

COMPANY SECRETARY

SZETO King Pui, Albert

AUTHORISED REPRESENTATIVES

ZOU Xiao Chun
SZETO King Pui, Albert

PRINCIPAL BANKERS

China Construction Bank
CITIC Bank
Industrial Bank
China Merchants Bank
Bank of Shanghai

AUDITORS

Ernst & Young
Certified Public Accountants

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