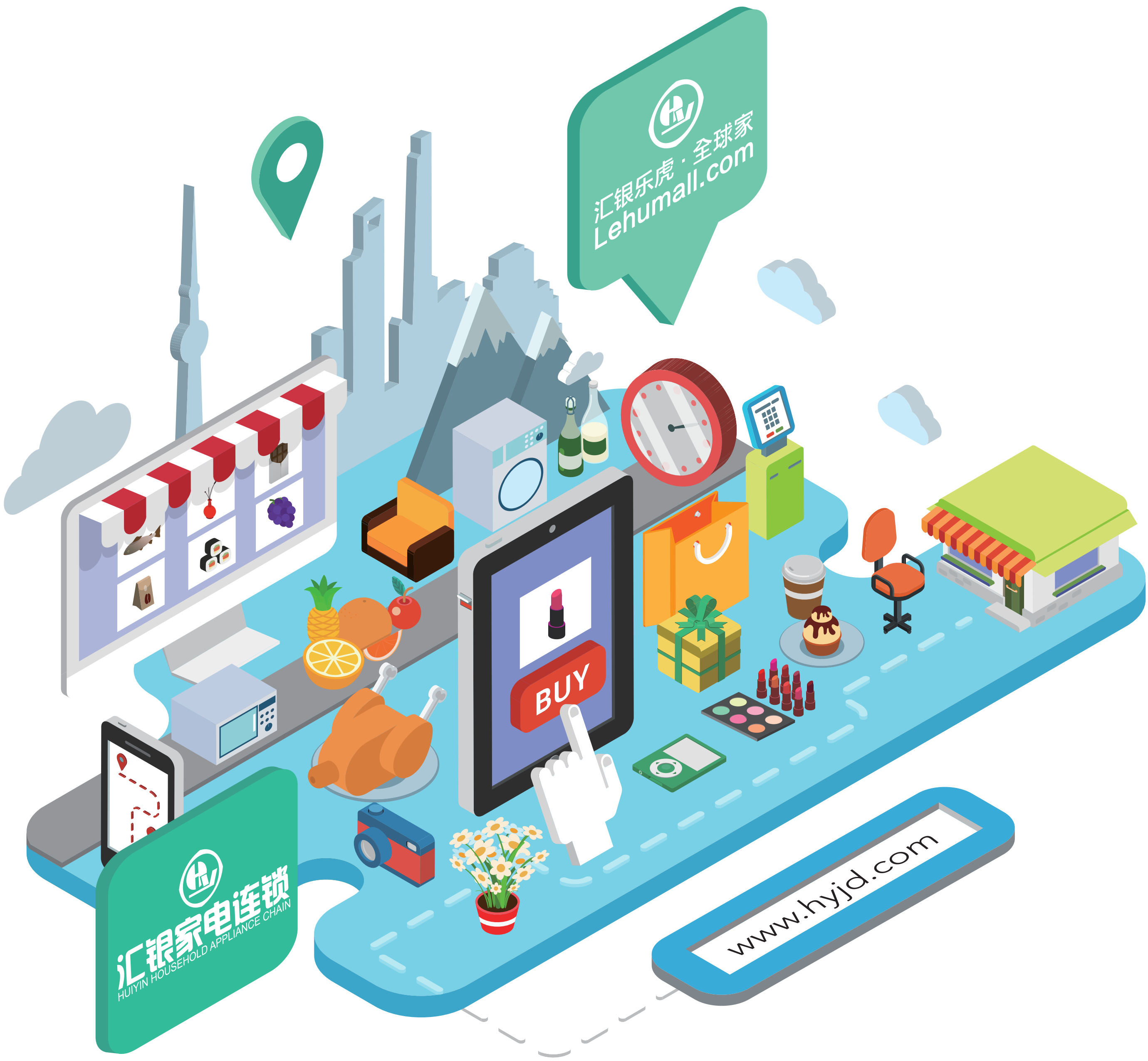
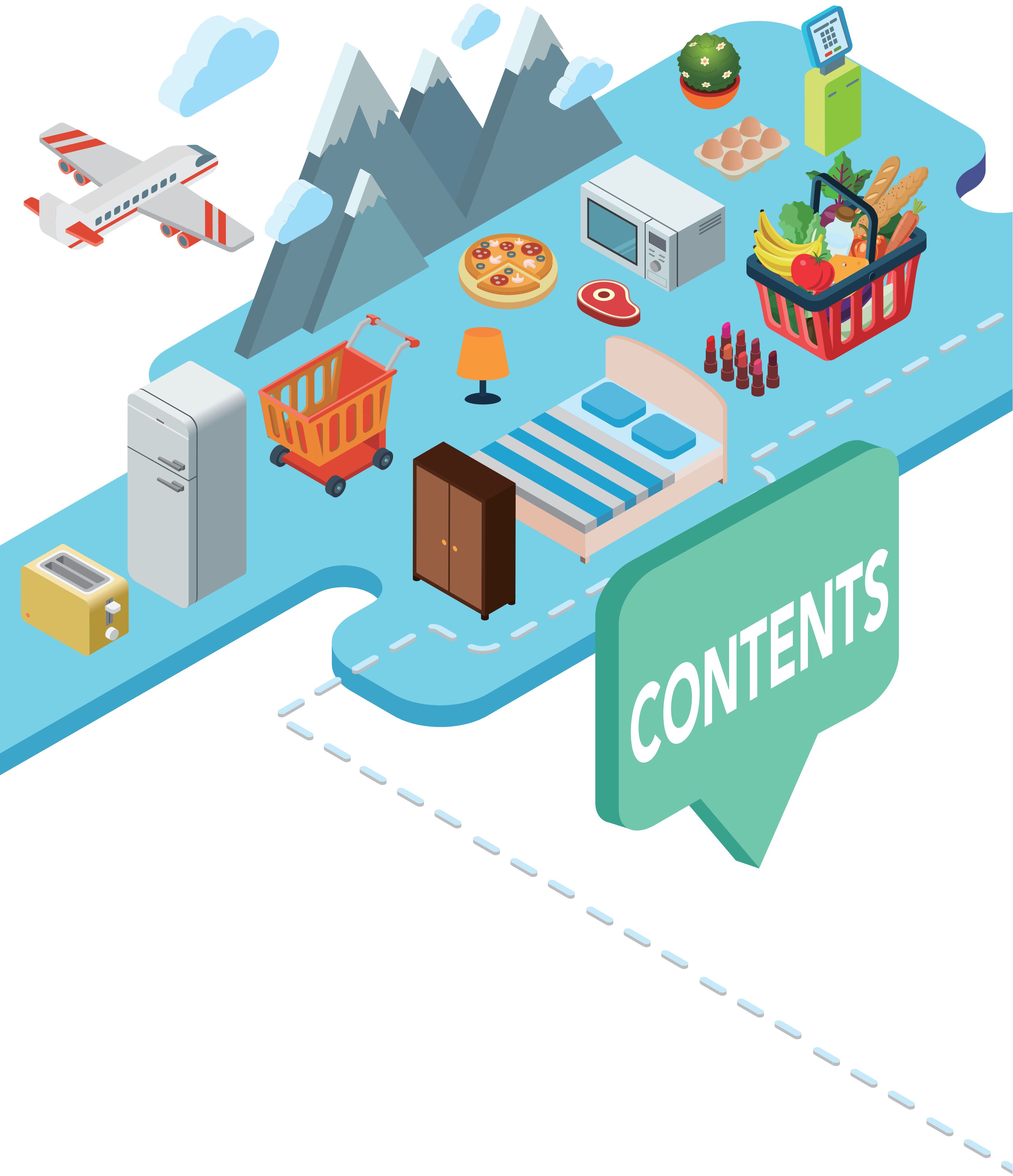
Huiyin Smart Community Co., Ltd.
汇银智慧社区有限公司

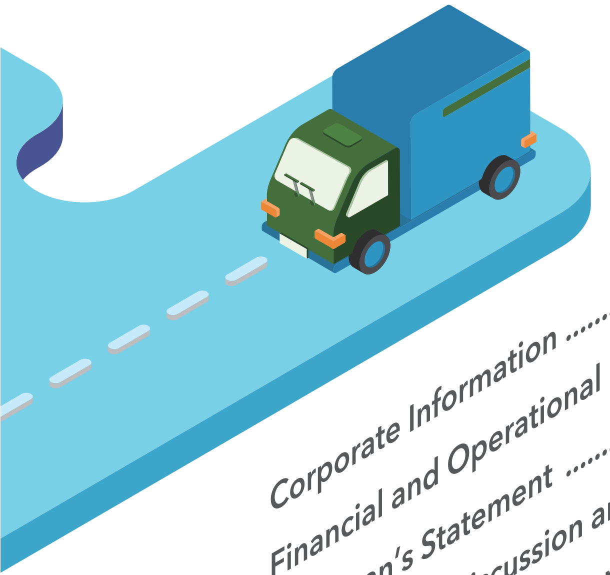
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1280



2017
ANNUAL REPORT


CONTENTS



CORPORATE INFORMATION

As at 29 January 2019

EXECUTIVE DIRECTORS

Mr. Yuan Li *(Chairman)*
Mr. Xin Kexia *(Chief Executive Officer)*
Mr. Xu Xinying
Ms. Liu Simei

NON-EXECUTIVE DIRECTORS

Mr. Wang Cai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Chun Chung
Mr. Zhao Jinyong
Mr. Chen Rui

COMPANY SECRETARY

Ms. Ngai Kit Fong

AUDIT COMMITTEE

Mr. Tam Chun Chung *(Chairman)*
Mr. Zhao Jinyong
Mr. Chen Rui

REMUNERATION COMMITTEE

Mr. Zhao Jinyong *(Chairman)*
Mr. Yuan Li
Mr. Chen Rui

NOMINATION COMMITTEE

Mr. Chen Rui *(Chairman)*
Mr. Zhao Jinyong

INDEPENDENT INVESTIGATION COMMITTEE

Mr. Tam Chun Chung *(Chairman)*
Mr. Zhao Jinyong
Mr. Chen Rui

AUTHORISED REPRESENTATIVES

Mr. Yuan Li
Ms. Ngai Kit Fong

REGISTERED OFFICE

Floor 4 Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

6/F, Tower 2,
Guotai Building,
No. 440 Wenchang Xi Road,
Yangzhou City
Jiangsu Province
PRC
(with effect from 31 January 2019)

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

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Communications (Yangzhou Branch)
No. 2 Wenhe North Road
Yangzhou City
Jiangsu Province
PRC

Agricultural Bank of China (Runyang Sub-branch)
No. 47 Hanjiang Road
Yangzhou City
Jiangsu Province
PRC

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

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

STOCK CODE

1280

WEBSITE OF THE COMPANY

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

REMARKS:

- Mr. Tam Chan Chung resigned as an independent non-executive director, chairman of the audit committee and independent investigation committee on 30 January 2019
- Mr. Wang Cai resigned as a non-executive director on 31 January 2019
- Mr. Zhao Jinyong was appointed as chairman of audit committee and independent investigation committee on 30 January 2019.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

HIGHLIGHTS

1 Revenue for 2017 was RMB1,347.4 million, representing a decrease of 2.6% compared with 2016.

2 Gross profit margin for 2017 was 2.3%, while that of 2016 was 4.1%.

3 Operating loss for 2017 was approximately RMB676.8 million, while there was operating loss of approximately RMB658.5 million for 2016.

4 Loss for the year for 2017 was approximately RMB736.2 million, while there was loss for the year of approximately RMB730.2 million for 2016.

5 Revenue of new retail business amounted to RMB203.5 million, representing 15.1% of the total revenue of the Group for 2017, while that proportion of 2016 was 13.3%.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Huiyin Smart Community Co., Ltd. (the "Company") and its subsidiaries ("the Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2017. China's economic development has currently entered a new era, shifting from a high-growth to a high-quality development. Consumption has become the main driving force for economic growth. Consumption of medium and high-end products which are personalized and diversified will become the major trend while the middle-income groups will turn into the main force driving consumption.

The State Council issued "Several Opinions on Improving Systems and Mechanisms on Stimulation of Consumption to Further Tap the Potential of Residential Consumption" in September 2018 and the "Implementation Plan for Improving the Mechanism of Promoting Consumption Systems (2018-2020)" was released by the General Office of the State Council in October. To promote the upgrades in consumption enhancement, the government clearly defined the main direction of the development.

Meanwhile, in view of the new consumer era in which consumption structure, consumer demand, consumption philosophy, and consumption channels have undergone tremendous changes, we will continue to uphold the principle of high efficiency, openness and to ensure a win-win situation. As the new consumer era approaches, Huiyin will seize the opportunity to create higher returns for our shareholders.

In the new consumer era, digitization and technological innovation will transform the consumption patterns, optimize supply chains, and expand the regions for consumption. Huiyin empowers it offline stores and realizes its digitalization of data of members, commodities and transactions by internet technology, reconstructing the dynamic relationship among "consumers, goods and locations".

Reviewing on the development trend of China's Internet population in recent years, the population in the first-tier and second-tier cities was 363 million people, while the population in the third-tier or lower tier cities was more than 1 billion as of December 2017. Characterized by its large population base, fast income growth, high marginal consumption tendency, lower awareness and etc., the consumption power of third-tier or lower tier cities consumers will gradually emerge. The group with more than 1 billion people at the starting line of the new era will inevitably become the main force for the burst of new consumption dividends. Meanwhile, Huiyin has always set up its stores in the third-tier and fourth-tier cities consumer market, forming a brand advantage.

CHAIRMAN'S STATEMENT

Driven by digital technology in the new consumer era, consumers and goods can be identified and connected more conveniently via different online and offline ports. The consumption scenarios are also much richer. From 2009 to 2018, China's new commercial infrastructure such as big data and Cloud computing were gradually formed and there is a gradual increase in the number of consumers going digitalized. With the retail model derived from multi-formats such as digital technology and logistics, the trend of retail generalization has been revealed and omni-channel shopping across the online and offline channels has become the mainstream consumption model of China. Apart from that, thanks to the urbanization rate, the people's income, the implementation of digital technology and the rapid development of mobile Internet, the gradual transformation of the people's consumption concept has been boosted.

Huiyin has initially unified the commodities, membership, pricing, promotion, inventory, logistics and etc. online and offline. In addition, the Group's service capabilities are constantly improving, equipping the logistics capabilities of "three delivery in one day", "precise distribution" and "delivery and installation integration". Experiencing more than 20 years of growth and settlement, Huiyin proposed a new consumption strategy empowered by technology. In the future, Huiyin will focus more on data and connectivity promoting comprehensive application of the Internet and digitalization.

However, in the past year we have also seen the slowdown of the online retail growth, accelerated competition in offline retail, and Internet companies racing for set up of offline retail. Under the downward pressure of China's current macroeconomic slowdown, we will closely follow the policy tempo and focus on the application of technology. Furthermore, we will actively seek technical support on the business side so as to reduce the cost and increase the efficiency. After that, we will actively explore the value and support of combining the business so as to constantly renew our business model. At the same time, our business and technology sector will interact multi-directionally as our business needs to be more specific with more accurate product acceptance and delivery while the technology sector takes the initiative to be realized in the offline store, assisting with our business. Lead by the new consumer strategy, we strive to become a new technological company from the traditional home appliance company.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to express my wholehearted thanks to all shareholders and investors who show their care and support for the Company. The continuous efforts of all staff member of Huiyin is highly respected and appreciated by us, and we would like to express our sincere gratitude to different sectors of the community for their support to Huiyin. We will continue to strive a balance among the interests of shareholders, employees and customers, and pursue long-term and sustainable development for the Company. I am very confident to lead Huiyin to develop in a rapid and steady pace, overcoming all challenges, and achieving the continuous advancement of Huiyin's new consumption strategy.

Yuan Li
Chairman

Hong Kong, 29 January 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Integrated business model

After more than 20 years of operation and development, the Group has gradually become the leading brand in the household appliances market in China's third- and fourth-tier cities. With the continuous maturity of China's commercial economy, home appliances have shifted from the seller's market to the buyer's market. In the past two years, the Group has been continuously seeking transformation and upgrading in emerging industries. In 2015, the Group started to engage in direct sales of cross-border imported goods. The new retail model, which is synchronized online with offline, formed into scale after the development in 2016.

In 2017, with the rise of the new retail concept and accelerated consumption upgrades, the Group wanted to seize every opportunity to achieve business transformation. Supported by the existing retail business, the Company actively expands all classified businesses through its own stores and sales networks.

During 2017, the Group continued to improve its store management plan. As at 31 December 2017, the Group had a total of 46 self-operated stores, including 30 comprehensive stores, 3 branded retail stores and 13 imported product experience stores. For the financial year of 2017, the Group's total revenue was approximately RMB1,347.4 million, representing a decrease of 2.6% from approximately RMB1,384.0 million for the year ended 31 December 2016. The Group's loss for the financial year of 2017 was approximately RMB736.2 million, while a loss of approximately RMB730.2 million was recorded for the financial year of 2016. In 2017, gross profit margin fell to 2.3%, down 1.8% from 2016.

Although the stores have been opened in second-tier cities such as Nanjing and Suzhou, the offline store network has expanded to the first-tier and second-tier cities. However, although the Group has made full use of its existing sales network and customer resources to rapidly promote the construction of a smart community life service platform and implement the "Internet Plus" thinking, the Group failed to achieve the expected results in promoting the integration and symbiosis of online and offline channels. A significant loss was recorded in the financial year of 2017. The main reason of loss was attributable to the decrease in gross profit margin and the increase in expenses arising from the provision for impairment of the Group's prepayments to suppliers.

Traditional business

Retail business

With the development of urbanization, the Group believes the growth potential of home appliances in third-tier and fourth-tier cities is stronger than that in first-tier cities. The growth rate of commercial housing transactions in third-tier and fourth-tier cities is higher than that in the first-tier and second-tier cities, and the demand for new houses is growing faster. In addition, household equipment expenditures in per capita expenditures in third-tier and fourth-tier cities have increased rapidly, and individual household ownership is also on the rise. The number of durable home appliances in the first-tier cities tends to be saturated, and the durable appliances in the third-tier and fourth-tier cities still have space for improvement, especially the durable large household appliances such as air conditioners and range hoods.

Therefore, the Company focuses its traditional home appliance business on high-growth markets in Jiangsu and Anhui provinces in the third-tier and fourth-tier cities.

The Company mainly sells a wide variety of products through self-operated stores, and actively optimizes product structure and flexibly adjusts product mix for different market needs. At the same time, in order to improve profitability, the Company focuses on the management of the industrial chain. On the upstream side, the Company focuses on supply chain management and inventory management, and maintains long-term relationships with home appliance manufacturers. In the downstream aspect, the Group mainly focuses on customer relationship management, collects and classifies customer data through various ways such as cross-industry alliance, group purchase and community promotion. In addition, the Group establishes customer database, and establishes and maintains good interaction with customers by analyzing customer consumption characteristics to promote the targeted sales of home appliances that customers need. In addition, the Group also uses the "Huiyin Lehu" APP and its existing sales network to complement and interact with online and offline customers, to attract customers and to improve the sales efficiency of the Company's products.

Although the Group has operated in traditional household appliances for over 20 years, it has accumulated a large loyal customer base. However, with the competition from the e-commerce platform such as Jingdong Mall and Suning with their well developed integrated e-commerce, the Group lost its market share and this has become a barrier for the Group's development. The Group will take advantage of its own competitive advantages to further study the market dynamics to build a solid foundation for business reform.

New retail business

In the past two years, China has introduced a series of incentives to encourage the development of cross-border e-commerce. In March 2015, the State Council issued the "Reply from the State Council on the Approval of the Establishment of a Cross-border E-Commerce Comprehensive Pilot Zone in Hangzhou", which approved Hangzhou as the first cross-border e-commerce comprehensive pilot zone in China, piloting the transactions, payment, logistics, customs clearance, tax refund, and settlement of foreign exchange involved in cross-border e-commerce. In June 2015, the State Council issued the "Guiding Opinions on Promoting the Healthy and Rapid Development of Cross-Border E-Commerce" to adopt convenient measures such as centralized declaration, inspection, release and 24-hour receipt of goods; encourage cross-border e-commerce companies to expand marketing channels through foreign warehouses and experience stores; cultivate a number of public platforms and foreign trade integrated service enterprises to provide customs clearance, warehousing, financing and other services for cross-border e-commerce. In January 2016, the State Council issued the "Reply from the State Council on the establishment of a cross-border e-commerce comprehensive pilot zone in 12 cities including Tianjin", which approved the 12 cities of Guangzhou, Shenzhen, Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Chengdu, Dalian, Ningbo, Qingdao and Suzhou to establish a cross-border e-commerce comprehensive pilot zone.

The Company also follows the national policy and vigorously develops cross-border e-commerce business, while reducing the bulk distribution business that occupies the Company's cash flow.

In early 2017, the Company cooperated with carefully selected suppliers to develop Huiyin Lehu imported goods experience base in Yangzhou City, Nanjing City, Nantong City, Taizhou City, Suzhou City and Hefei City. These imported goods experience bases generally have a business area of 3,000-5,000 square meters and provide thousands of imported goods, mainly including maternal and infant products, food, cosmetics, personal care products, health products, alcohol and other products with higher gross profit margin.

On the supplier side, the Company mainly seeks to cooperate with the manufacturers, because goods can be purchased through fewer intermediary agents, which enables the Company to provide customers with better products at lower prices, so as to increase sales and improve the Company's inventory turnover rate. At the same time, suppliers can receive payments faster. Through effective supply chain management and cost control, the Company has reached the goal of achieving a win-win situation with suppliers. On the customer side, the Company adheres to the customer-oriented philosophy, implements the membership system, and invests in membership, which enables customers to enjoy preferential membership prices and value-added services. Members can not only order imported goods through the Company's online platform, but also participate in different types of promotions for members. Adopting a membership system not only brings stable cash flow to the Company, but also enhances customer loyalty.

For the financial year of 2017, the sales revenue of the imported goods business was approximately RMB203.5 million, representing an increase of 10.2% as compared with approximately RMB184.7 million for the financial year of 2016, including imports and retail business of general merchandise.

From the perspective of new retail, although there was no good result in 2017, the Group has seen the new retail market tendency. Perhaps because the management of the Group needs to be strengthened; perhaps because the screening of the Group's human resources and the training of team echelons need to be strengthened; and perhaps because the Group's technology investment needs to be increased, in short, the Group will summarize the past lessons and move towards a bright future for new retail.

Customer Service: After-sales service and logistics management

Providing after-sales service is not only an important part of supporting the Company's business continuity, but also the Company's competitive advantage. The Company provides a number of installation and maintenance services for home appliance products purchased from the Company or other third-party vendors and suppliers, and also provides satisfactory service and technical support for the Company's business.

In recent years, the Company has provided free maintenance services to its registered members, which has been widely welcomed and has helped to expand the number of members of the Company. By operating under an authorised arrangement with an independent third-party operator, the Group is able to expand the geographical coverage of after-sales customer service by using less capital investment and lowering operational risks. On June 30, 2017, the Company operated and managed 35 authorized service outlets to provide intimate and diversified after-sales maintenance services to customers in a wide range of areas.

In addition, the Company is committed to optimizing the logistics management of existing logistics networks, warehouses and distribution centers to cope with the growing business operations. In recent years, the Company has strengthened its information management and implemented real-time monitoring systems such as security systems, warehouse goods, and employee performance. At the same time, in addition to working with qualified third-party logistics providers, the Company has also established its own logistics team. The Company has installed GPS to improve the delivery process and online shopping experience maximally. The Company has integrated after-sales and logistics into a centralized platform to improve the efficiency and effectiveness of customer service management.

Diversified marketing and promotion strategies

With the diversification of the Company's business, the Company adopted a diversified marketing and promotion strategy for different business operations in different regions to adapt to the Company's business development and increase market share.

Through research, the Company found that the main driving force of the post-real estate industry is the replacement and upgrading of home appliances. The renewal cycle of big household appliances is generally 8 to 10 years. The demand released for replacement after the peak of home appliance purchases under the consumption stimulus policy in 2009-2011 is an important engine for the growth of large home appliances such as air conditioner, refrigerator, washing machine, etc.

Therefore, on the one hand, the Company attracted community consumers through the old-for-new program for the community, free maintenance of home appliances, and free housekeeping in 2017. On the other hand, in terms of customer base expansion, the Company had achieved more accurate customer marketing and brand promotion strategies through electronic management of customer data. In addition, by upgrading the stores and optimizing the store layout and product structure, the Company achieved sales, management and service enhancements. The Company adopted a brand promotion strategy to flexibly deploy strategic store layouts in various regions.

By cooperating with multimedia channels such as TV, radio and internet, holding community-based recreational and sports activities, health talks, parent-child activities and campus activities, and adopting multi-marketing and promotion strategies such as the combination of traditional marketing strategies and innovative media, the brand awareness of "Huiyin" and "Huiyin Lehu • Global Home" has been further enhanced.

Management information and office system integration and upgrade

In order to improve the Company's operational efficiency and communication efficiency, the Company actively integrates and upgrades information and office management systems to adapt to the rapid development of the Company's business and business transformation.

On the one hand, the Company implements an information platform to comprehensively manage inventory, logistics and customer service systems. On the other hand, it integrates member management systems to analyze membership data and provides excellent services to its members. The mobile communication platform has also been used to optimize the customer experience and improve customer service efficiency. In addition, the Company has actively sought to improve the efficiency of office collaboration in the office management system, and now it has begun to adopt a new office management system, so that the various management processes are more refined to effectively improve the efficiency of the Company's operations.

Human resource management

In the financial year of 2017, the Group had 910 employees. In the financial year of 2017, the Group organized more than 30 different themed training sessions, including employee induction training, product knowledge, sales skills, leadership skills and corporate culture, to fully cater for the needs of different levels of employees. The total number of employees involved in the training is about 1,600.

During the year of 2017, the Group also introduced management talents with advantages in business, capital and finance, laying a good foundation for the diversified development of the Company's business and the launch of new retail business.

The Group continued to fulfill its corporate social responsibility and actively participated in social welfare undertakings to give back to the society. In the financial year of 2017, the Group won several awards such as the "Mayor Quality Award" issued by the People's Government of Yangzhou City, highlighting the brand credibility and popularity of the Group.

FINANCIAL REVIEW

Revenue

During the year, due to the impact of macro-economic slowdown, the Group's revenue was approximately RMB1,347.4 million, representing a slight decrease of 2.6% from approximately RMB1,384.0 million in FY2016.

Turnover of the Group comprises revenues by operation as follows:

	FY2017 RMB'000		FY2016 RMB'000	
Traditional business	**1,130,560**	**83.9%**	1,189,271	85.9%
New retail business	**203,527**	**15.1%**	184,711	13.3%
Rendering of services	**13,349**	**1.0%**	10,047	0.7%
Total revenue	**1,347,436**	**100.0%**	1,384,029	100.0%

The increase in sales from new retail business was mainly attributable to our development of e-commerce and import merchandise business in FY2017.

Cost of sales

Cost of sales decreased by approximately 0.9% from RMB1,327.1 million for FY2016 to RMB1,315.8 million for FY2017, primarily due to a decrease in rebate received from suppliers as deductions to cost of sales and a decrease in sales volume.

Gross profit

As a result of the above principal factors, the Group's gross profit decreased by approximately 44.4% from RMB57.0 million for FY2016 to RMB31.7 million for FY2017, and the gross profit margin of the Group for FY2017 was 2.3%, while that of FY2016 was 4.1%. The decrease in gross profit margin was primarily due to the increasing competition faced by the industry which led to great pressure on product selling price.

Other income

During the year, the Group's other income amounted to approximately RMB36.1 million, representing an increase from approximately RMB20.2 million for FY2016, which is mainly due to the increase in the sales of membership and government subsidy.

Other losses

During the year, the Group recorded other losses of approximately RMB13.1 million, while other losses of approximately RMB90.7 million was recorded in FY2016, primarily due to the investment loss incurred by the Group in FY2016 in relation to the disposal of the real estate business.

Selling and marketing expenses

During the year, the Group's total selling and marketing expenses amounted to approximately RMB198.7 million, representing an increase from approximately RMB188.5 million for FY2016, which was mainly due to the increase of employee benefit expenses and operating lease expenses in respect of buildings and warehouses, resulting from the rapid expansion of new retail business.

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

As a percentage of revenue	FY2017	FY2016
Employee benefit expenses	**4.18%**	3.59%
Service charges	**0.24%**	0.14%
Operating lease expenses in respect of buildings and warehouses	**2.93%**	2.49%
Renovation, promotion and advertising expenses	**4.00%**	4.17%
Depreciation of property, plant and equipment	**0.82%**	1.12%
Utilities and telephone expenses	**0.71%**	0.61%
Transportation expenses	**0.94%**	0.63%
Travelling expenses	**0.12%**	0.15%
Others	**0.80%**	0.72%
Total selling and marketing expenses	**14.75%**	13.62%

The increase of percentage of employee benefit expenses and operating lease expenses in respect of buildings and warehouses was mainly due to the rapid expansion of new retail business and increase in store number.

Administrative expenses

During the year, the Group's total administrative expenses amounted to approximately RMB532.7 million, representing an increase from RMB456.5 million for FY2016, which was mainly due to the increase of provision for impairment on prepayments.

The following table sets out a summary for administrative expenses:

	FY2017 RMB'000	FY2016 RMB'000
Provision for impairment on prepayments to Suohai, Zhipu and Mei Zanying	415,360	–
Provision for impairment on prepayments to other suppliers	(39,976)	40,743
Provision for impairment on rebate receivable from suppliers	17,412	269,929
Provision for impairment on receivables	8,090	5,000
Provision for impairment of property, plant and equipments	28,361	–
Provision for impairment of a land use right	11,403	–
Provision for impairment of intangible assets	5,255	–
Share option expenses	–	44,832
Amortization and depreciation	12,589	9,740
Auditor's remuneration	9,329	3,565
Consulting expenses	1,744	5,104
Employee benefit expenses	29,667	39,249
Operating lease expenses in respect of buildings and warehouses	4,016	6,489
Travelling expenses	1,961	2,267
Utilities and telephone expenses	1,383	2,010
Others	26,125	27,588
Total	532,719	456,516

Considering that production cost of household appliances is high and production cycle is long, the Group purchases household appliances in prepaid form. The Group has entered into agreements with various suppliers whereby the Group is entitled to inventory purchase rebates primarily upon the achievement of specified volume purchasing levels. The Group assesses the entitled supplier rebates as earned, and adjusts them taking into consideration of the estimated recoverability based on the historical settlement record and the future purchase plan of the Group from these suppliers. During the year, management became aware that two main TV set suppliers of the Group were in financial difficulties, the Group made provisions to cover the exposure of the prepayments with the two suppliers. Meanwhile, the Group received a confirmation from a large air-conditioner supplier Mei Zanying and noted the balance was different from the Group's accounting records. Although we are still approaching Mei Zanying for a reconciliation and checking of the prepayments, a provision is made to cover the exposure of prepayment balance with Mei Zanying. For FY2017, accrual of provision of RMB17,412,000 (FY2016: RMB269,929,000) for impairment of supplier rebates receivable had been recognized in "administrative expenses", and accrual of provision of RMB415,360,000 (FY2016: nil) for impairment of prepayments to above-mentioned suppliers of the Group had been recognized in "administrative expenses". In addition, the Group reversed impairment provision of RMB40,743,000 for prepayment to a supplier as the prepayment was fully recovered. In the current year, the Group accrued provision for prepayment to another supplier of RMB767,000 (2016: nil) to cover the exposure arising from it.

The Group reviews the recoverable amount of its non-financial assets annually. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. As at 31 December of 2017, impairment charge of RMB11,403,000 and RMB5,237,000 had been provided for the land use rights and associated buildings respectively as their carrying amount exceed their recoverable amounts calculated based on the valuation applying income approach, and an impairment charge of RMB23,124,000 had been provided for leasehold improvements as the coming amounts of these assets are not expected to be recoverable in the future. The Group also recognized an impairment of computer software amounting to RMB5,255,000 because these softwares have not been in use resulting from the restructuring of the new retail segment business.

Finance costs – net

During FY2017, the Group's net finance costs was approximately RMB28.9 million, representing a decrease from approximately RMB42.3 million of net finance costs for FY2016, which is mainly due to the decrease of interest expense as a result of bank borrowings repayment.

Share of loss of a joint venture

During FY2017, share of loss of a joint venture was share of loss of Jiangsu Huisheng Supply Chain Management Co., Ltd. (江蘇滙晟供應鏈管理有限公司) ("Huisheng"). On 22 January 2017, Yangzhou Huiyin Technology Group Co., Ltd. (揚州滙銀科技集團有限公司) ("Yangzhou Huiyin"), an indirectly owned subsidiary of the Company, together with Yangzhou Maikensu Investment Partnership (揚州麥肯蘇投資合夥企業), a limited partnership established in the PRC and a non-controlling interest party of certain indirectly owned subsidiaries of the Company, and Jinjia Asset Management Co., Ltd. (金甲資產管理有限公司), an independent third party limited liability company established in the PRC, set up Huisheng in Nanjing and Jiangsu Province. During the year, Huisheng has a net loss of RMB60,738,000 and the Group recognized share of loss of Huisheng of RMB27,500,000 which reduced its investment to zero.

Share of loss of an associate

During FY2017, the share of loss of an associate amounting to RMB122,000 (FY2016: loss of RMB211,000) was share of loss of Taixing Shengshi Huazhang Electronic Sales Co., Ltd. ("Huazhang"), which is an associate set up by Yangzhou Shengshi Xinxing Electronic Sales Co., Ltd. ("Yangzhou Shengshi"), an indirectly owned subsidiary of the Company, together with 3 third-party individuals on 29 September 2014. The Group recognizes the share of profit and loss of Huazhang by applying equity method.

Loss before income tax

During FY2017, the loss before income tax was approximately RMB733.3 million, while there was loss before income tax of approximately RMB702.2 million for FY2016.

Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company for FY2017 was approximately RMB720.6 million, while there was loss attributable to equity holders of approximately RMB722.8 million for FY2016.

Cash and cash equivalents

As at 31 December 2017, the Group's cash and cash equivalents were approximately RMB56.5 million, representing an decrease of 64.5% from approximately RMB159.1 million as at 31 December 2016.

Inventories

As at 31 December 2017, the Group's inventories amounted to approximately RMB258.0 million, representing an increase of 12.9% from RMB228.5 million as at 31 December 2016.

Prepayments, deposits and other receivables

As at 31 December 2017, prepayments, deposits and other receivables of the Group amounted to approximately RMB165.6 million, representing a decrease of 66.9% from approximately RMB499.8 million as at 31 December 2016, which was mainly due to the decrease of prepayments.

Trade and bills receivables

As at 31 December 2017, trade and bills receivables of the Group amounted to approximately RMB39.8 million, representing a decrease from approximately RMB68.5 million as at 31 December 2016, which was mainly due to the decrease of trade receivables.

Trade and bills payables

As at 31 December 2017, trade and bills payables of the Group amounted to approximately RMB683.7 million, representing a decrease from approximately RMB850.9 million as at 31 December 2016, which was mainly due to the decrease of notes payable.

Gearing ratio and the basis of calculation

As at 31 December 2017, gearing ratio of the Group was 116.7%, representing an increase from 82.2% as at 31 December 2016. The gearing ratio is equal to total borrowings divided by the sum of total equity and total borrowings.

Capital expenditure

During FY2017, capital expenditure of the Group amounted to approximately RMB39.7 million, representing an increase from approximately RMB30.4 million for FY2016.

Cash flows

During FY2017, net cash outflow from operating activities of the Group amounted to approximately RMB232.9 million, as compared to RMB164.2 million in FY2016. The higher net cash outflow was mainly due to the decrease of trade and bills payables during FY2017.

Net cash outflow from investing activities amounted to approximately RMB35.2 million, while there was net cash inflow from investing activities amounted to approximately RMB171.7 million for FY2016, which was mainly due to the cash acquired in FY2016 from disposal of a subsidiary.

Net cash inflow from financing activities amounted to approximately RMB166.1 million, as compared to approximately RMB80.4 million for FY2016, which was mainly due to the increase of net proceeds from issuance of ordinary shares.

As disclosed in the Group's announcement dated 23 July 2017, the Group entered into the subscription agreement with Noble Trade International Holdings Limited (聖商國際集團有限公司, the "Subscriber") ("Noble Trade International"), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Group has conditionally agreed to allot and issue an aggregate of 339,100,000 new shares at the subscription price of HK$0.81 per subscription share. The net proceeds from the subscription of approximately HK$274.4 million, has been utilized as to approximately HK$174.4 million for general working capital of the Group, which is mainly for purchasing merchandise, and approximately HK$100.0 million for development of the existing business of the Group.

Capital structure

As at 31 December 2017, the Group's cash and bank balances were mainly held in Renminbi, and the Group's borrowings were denominated in Renminbi and in US dollar with floating or fixed interest rate.

As at 31 December 2017, deficit attributable to shareholders of the Company amounted to approximately RMB198.3 million, compared to equity attributable to shareholders of the Company approximately RMB314.3 million as at 31 December 2016.

Liquidity and financial resources

During FY2017, the Group's working capital and capital expenditure were funded from cash on hand, bank borrowings and proceeds from placing of ordinary shares. As at 31 December 2017, the borrowings of the Group amounted to RMB138.4 million, representing a decrease from RMB312.4 million as at 31 December 2016.

Pledging of assets

As at 31 December 2017, the Group's pledged bank deposits amounted to RMB278.4 million, representing a decrease from RMB646.7 million as at 31 December 2016. In addition, certain land use rights, buildings and investment properties with a total net book value of RMB194.8 million had been pledged.

Contingent liabilities

During the year ended 31 December 2017, the Group's subsidiary, Jiangsu Electronics Commerce obtained one month borrowing of RMB100 million from Ruihua. Jiangsu Electronics Commerce had repaid RMB85 million after the due date. As at 31 December 2017, based on management's estimate, the outstanding principal and accrued late penalty charge accrued as at 31 December 2017 were RMB27,800,000 and RMB350,000, respectively. In January 2018, the Group repaid another RMB25 million to Ruihua. In August 2018, Ruihua initiated a legal claim against Jiangsu Electronics Commerce for a total amount of RMB18,038,000, including principal of RMB15,730,000 and overdue charge of RMB2,308,000. The Directors of the Company considers that the Group have made sufficient accrual as at 31 December 2017 to cover the outstanding balance of the borrowing and related overdue charges. Also, the Group would defend vigorously against this claim and consider no additional provision is necessary as at 31 December 2017.

Capital commitments

As at 31 December 2017, the Group had capital commitment amounted to RMB98.0 million to investment in an associate.

Foreign currencies and treasury policy

The majority of the Group's income and expenses were denominated in Renminbi. During the year, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risk which mainly arise from US$ bank borrowings with a total amount of US$2,600,000, bonds payable with a total amount of HK$10 million as at 31 December 2017. The Group does not have a foreign currency hedging policy. However, the directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting appropriate foreign currency hedging policy in the future.

Final dividend

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2017 (FY2016: Nil).

EMPLOYMENT AND REMUNERATION POLICY

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

HUMAN RESOURCES

As at 31 December 2017, the Group had 910 employees, decreased by 20.0% from 1,138 as at 31 December 2016.

OUTLOOK

In 2018, the global economy will continue to be challenging, retail business will face significant operational pressure and the domestic consumer market will face the change in growth pattern and structural integration. Demand on high-end products and import merchandise increased fast. With the technology development, e-commerce grows rapidly. Chinese government has released policies to vigorously promote O2O business. New retailing is going to be the trend and the way of future. Rural commerce, community e-commerce as well as import e-commerce were becoming new growth drivers for the market. The Group is constantly taking advantage of its own advantages and taking the opportunities arising from market environment and industry consolidation, leveraging on its unique business model and its sales network and client resources, and is strategically poised to realize future growth and to become a leading community e-commerce and import merchandise direct selling operator in China. Household appliance is still an important part of our business. Other than the steady demand from first-time buyers, the consumption of household appliances in China now mainly derives from the need for replacement and upgrade. The growing size of cities with the progress of urbanization in China, the increase in residential income in third and fourth-tier cities and the improvement in housing conditions will support the growth of demand for home appliances and bring new development opportunity for domestic household appliances market.

In the future, the Group will take innovative measures in three aspects – store management, brand building and human resources. The Group will adjust its sales network in target markets to improve operation efficiency, and to further increase its market share and solidify its market position through upgrading and integration of existing online and offline network. Meanwhile, the Group will actively implement its brand marketing strategy, enhance its brand image (including further optimization of the Group's integrated online platform covering various aspects such as procurement, sales and customer services), reinforce the cultivation of members and franchisees, and improve the Group's overall asset management efficiency, so as to deepen the Group's relationship with suppliers and customers. In addition, service-oriented and customer-focused, the Group plans to strengthen corporate culture, internal management and upgrade the development of "Huiyin Business School" in order to train more retail and e-commerce talents and provide customers with professional services.

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

Throughout the year ended 31 December 2017, save as disclosed in this Corporate Governance Report, the Company has complied with the code provisions as set out in the CG Code.

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

THE BOARD

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

Board Composition

The Board currently comprises eight members, consisting of four executive Directors, one non-executive Director, and three independent non-executive Directors:

Executive Directors:
Mr. Yuan Li, Chairman and member of the Remuneration Committee
Mr. Xin Kexia, Chief Executive Officer
Mr. Xu Xinying
Ms. Liu Simei

Non-executive Director:
Mr. Wang Cai

Independent Non-executive Directors:
Mr. Tam Chun Chung, Chairman of the Audit Committee and the Independent Investigation Committee
Mr. Zhao Jinyong, Chairman of the Remuneration Committee and member of the Audit Committee, the Nomination Committee and the Independent Investigation Committee
Mr. Chen Rui, Chairman of the Nomination Committee and member of the Audit Committee, the Remuneration Committee and the Independent Investigation Committee

The biographical information of the directors are set out in the section headed "Directors' and Senior Management's Profile" on pages 44 to 52 of this annual report.

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

Mr. Cao Kuanping (resigned as Chairman of the Board on 29 December 2017, resigned as Chief Executive Officer on 15 June 2018 and resigned as Executive Director on 9 September 2018). Mr. Mao Shanxin (resigned as Executive Director on 1 June 2017) is his borther-in-law. Save as disclosed, there are no financial, business, family or other material/relevant relationships among members of the Board.

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board, and of whom at least one Independent Non-executive Director must possess appropriate professional qualifications or accounting or related financial management expertise.

The Company has received a written annual confirmation of independence from each of its Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors are independent in accordance with the independence guidelines as set out in the Listing Rules.

Each of the Non-executive Directors (including Independent Non-executive Directors) brings a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all the Non-executive Directors make various contributions to the strategic direction of the Company.

Chairman and Chief Executive Officer

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

Since the establishment of the Company up to 28 December 2017, Mr. Cao Kuanping had been the Chairman and Chief Executive Officer of the Company, and that the functions of the Chairman and Chief Executive Officer in the Company's strategic planning and development process overlap. This constitutes a deviation from code provision A.2.1 of the CG Code. However, the Board considers that such arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership.

On 29 December 2017, Mr. Cao resigned as the Chairman and remained as the Chief Executive Officer. Mr. Yuan Li was appointed as an Executive Director on 26 August 2017 and the Chairman of the Board with effect from 29 December 2017. Since then, the roles of the Chairman and the Chief Executive Officer have been separated and performed by different individuals, and therefore, the Company has complied with the code provision A.2.1 of the CG Code. Mr. Xin Kexia was appointed as Chief Executive Officer on 15 June 2018. Mr. Cao resigned as Chief Executive Officer on 15 June 2018 and resigned as an Executive Director on 9 September 2018.

Appointment, Re-election and Removal of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election.

Each of the Executive Directors entered into a service contract with the Company for a term of three years commencing on the respective date of their appointment. Each of their appointment can be terminated by either party giving not less than three months' prior notice in writing to the other. Mr. Yuan Li, entered into a service contract with the Company commencing on 26 August 2017. Mr. Xu Xinying is re-designated from Non-executive Director to Executive Director and entered into a service contact with the Company commencing on 29 December 2017. Ms. Liu Simei entered into a service contact with the Company commencing on 29 December 2017.

Each of the Non-executive Directors (including Independent Non-executive Directors) entered into an appointment letter with the Company for a term of three years commencing on 1 June 2017 for Mr. Wang Cai, Non-executive Director; on 29 December 2017 for Mr. Zhao Jinyong, Independent Non-executive Director; and on 4 July 2018 for Mr. Chen Rui, Independent Non-executive Director. The terms of office of Mr. Tam Chun Chung was renewed for further three years commencing on 5 March 2016. The appointment of each of the Non-executive Directors (including Independent Non-executive Directors) can be terminated by either party giving not less than three months' prior notice in writing to the other.

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

In accordance with the Company's Articles of Association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board by the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting. Each of the Executive Directors, namely Mr. Yuan Li, Mr. Xin Kexia, Mr. Xu Xinying and Ms. Liu Simei, the Non-executive Director namely Mr. Wang Cai, and the Independent Non-executive Directors, namely Mr. Zhao Jinyong and Mr. Chen Rui, being appointed by the Board, shall retire and offer himself/herself for re-election at the forthcoming annual general meeting according to article 16.2 of the Company's articles of association. Mr. Tam Chun Chung, an Independent Non-Executive Director, shall retire and offer himself for re-election at the forthcoming annual general meeting according to article 16.18 of the Company's articles of association.

According to article 16.2 of the Company's Articles of Association which is in compliance with paragraph 4(2) of Appendix 3 to the Listing Rules, the Company has deviated from code provision A.4.2 which requires all directors appointed to fill a casual vacancy to be subject to election by shareholders at the first general meeting after appointment as the first general meeting after their appointment was the extraordinary general meeting held on 1 February, 2018 at which no retirement and re-election had been dealt with.

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

Continuous Professional Development of Directors

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

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

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

Records of training received by each existing Directors are summarized below:

Directors	Types of Training
Mr. Yuan Li	A, B
Ms. Liu Simei	A, B
Mr. Xu Xinying	A, C
Mr. Wang Cai	A
Mr. Tam Chun Chung	C
Mr. Zhao Jinyong	A, C
Mr. Xin Kexia	C
Mr. Chen Rui	C

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

Board Committees and Corporate Governance Functions

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

All the majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out in the section headed "Corporate Information" on page 2.

In response to the concern raised by the auditor regarding certain prepayments made to two suppliers of the Group during the year ended 31 December 2017 (the "Prepayments"), the Board resolved on 2 April 2018 to form an independent investigation committee (the "Independent Investigation Committee"), comprising Mr. Tam Chun Chung, Mr. Li Michael Hankin (resigned on 30 June 2018) and Mr. Zhao Jinyong, all are Independent Non-executive Directors. Mr. Tam Chun Chung has been appointed as the chairman of the Independent Investigation Committee. Mr. Chen Rui was appointed as a member of the Independent Investigation Committee on 4 July 2018. The purposes of forming the Independent Investigation Committee include, among other things, the following:

1. carrying out an independent investigation on all matters relating to the Prepayments as recommended by the Auditor; and

2. reviewing the adequacy of and the effectiveness in implementing the internal control systems and procedures on making advances and prepayments to third parties (including but not limited to the Prepayments), and making recommendations to the Board on any necessary remedial measures.

The Independent Investigation Committee may engage other independent professional advisers to assist in its investigation. For details, please refer to the announcements dated 2 April 2018, 3 September 2018, 10 September 2018 and 28 January 2019 respectively.

Audit Committee

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

During the year and up to the date of this report, the Audit Committee comprises three independent non-executive directors, namely Mr. Tam Chun Chung, Mr. Zhao Jinyong, Mr. Li Michael Hankin (resigned on 30 June 2018) and Mr. Chen Rui (appointed on 4 July 2018) (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). Mr. Tam Chun Chung has been appointed as the chairman of the Audit Committee.

During the year, the Audit Committee held two meetings, to review annual financial results and report for the year ended 31 December 2016 and interim financial results and report for the half year ended 30 June 2017 and to review significant issues on the financial reporting and compliance procedures, internal control and the independence, scope of work and appointment of external auditor.

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

The Audit Committee has in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the auditor's report thereon.

Remuneration Committee

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

During the year and up to the date of this report, the Remuneration Committee comprises one executive Director, Mr. Yuan Li and two independent non-executive Directors, Mr. Zhao Jinyong, Mr. Li Michael Hankin (resigned on 30 June 2018) and Mr. Chen Rui (appointed on 4 July 2018). Mr. Zhao Jinyong has been appointed as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee held four meetings, to assess performance of Executive Directors, review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive Directors and senior management and made recommendations to the Board on the terms of service contracts and letters of appointment of the new executive/non-executive/independent non-executive Directors appointed during the year.

Nomination Committee

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

From 1 January 2017 to 25 August 2017, the members of the Nomination Committee are Mr. Mo Chihe (Executive Director), Mr. Lo Kwong Shun Wilson (Independent Non-executive Director, Chairman of the Nomination Committee) and Mr. Zhou Shuiwen (Independent Non-executive Director). On 26 August 2017, Mr. Lo Kwong Shun Wilson resigned and Mr. Li Michael Hankin appointed as an Independent Non-executive Director and Chairman of the Nomination Committee. On 29 December 2017, Mr. Mo Chihe and Mr. Zhou Shuiwen resigned, Mr. Cao Kuanping (Executive Director) and Mr. Zhao Jinyong (Independent Non-executive Director) appointed as members of the Nomination Committee. On 30 June 2018, Li Michael Hankin resigned. Mr. Chen Rui was appointed as an Independent Non-executive Director and Chairman of the Nomination Committee on 4 July 2018. Then on 9 September 2018, Mr. Cao Kuanping resigned. As at 29 January 2019, the Nomination Committee comprises 2 members, namely Mr. Chen Rui (Chairman of the Nomination Committee) and Mr. Zhao Jinyong.

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

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

During the year, the Nomination Committee held four meetings, to review the structure, size and composition of the Board and the independence of the independent non-executive directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting and to consider and recommend to the Board on the appointment of executive/non-executive/independent non-executive directors. The Nomination Committee considers that an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Functions

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

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

Attendance Records of Directors and Committee Members

The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2017 is set out in the table below:

	Attendance/Number of Meetings				
	Board Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings	Annual General Meeting
Executive Directors					
Mr. Cao Kuanping *(resigned on 9 September 2018)*	10/10	0/0	4/4	N/A	0/1
Mr. Mo Chihe *(resigned on 29 December 2017)*	10/10	4/4	N/A	N/A	0/1
Mr. Mao Shanxin *(resigned on 1 June 2017)*	4/4	N/A	N/A	N/A	0/1
Mr. Wang Zhijin *(resigned on 29 December 2017)*	10/10	N/A	N/A	N/A	1/1
Mr. Lu Chaolin *(resigned on 26 August 2017)*	9/9	N/A	N/A	N/A	0/1
Mr. Yuan Li *(appointed on 26 August 2017)*	1/1	N/A	0/0	N/A	N/A
Mr. Xu Xinying *(appointed as non-executive director on 26 August 2017 and re-designated as executive director on 29 December 2017)*	1/1	N/A	N/A	N/A	N/A
Ms. Liu Simei *(appointed on 29 December 2017, resigned on 27 April 2018 and re-appointed on 3 May 2018)*	0/0	N/A	N/A	N/A	N/A

	Board Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings	Annual General Meeting
	Attendance/Number of Meetings				
Non-executive Directors					
Mr. Song Liwu *(appointed on 1 June 2017 and resigned on 26 August 2017)*	5/5	N/A	N/A	N/A	N/A
Mr. Wang Cai *(appointed on 1 June 2017)*	6/6	N/A	N/A	N/A	N/A
Mr. Shen Xingpeng *(appointed on 29 December 2017 and resigned on 15 June 2018)*	0/0	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Zhou Shuiwen (*resigned on 29 December 2017)*	10/10	4/4	4/4	2/2	*1/1
Mr. Tam Chun Chung	10/10	N/A	N/A	2/2	1/1
Mr. Lo Kwong Shun Wilson *(resigned on 26 August 2017)*	9/9	3/3	3/3	2/2	*1/1
Mr. Li Michael Hankin *(appointed on 26 August 2017 and resigned on 30 June 2018)*	1/1	1/1	1/1	0/0	N/A
Mr. Zhao Jinyong *(appointed on 29 December 2017)*	0/0	0/0	0/0	0/0	N/A

* Attendance by delegates

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

Mr. Cao Kuanping, the former Chairman of the Board up to 28 December 2017, was unable to attend the annual general meeting of the Company held on 31 May 2017 due to his other business commitments. This constitutes a deviation from code provision E.1.2 of the CG Code.

Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

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

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

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company and of the Group for the year ended 31 December 2017.

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

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

Risk Management and Internal Controls

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

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

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

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

Trading of the Company's shares has been suspended since 26 March 2018 pending release of its annual results for the year ended 31 December 2017. The delay was due to additional time required for the Company to address audit issues raised by its auditors, PricewaterhouseCoopers (PwC), on prepayments made by the Company to two suppliers in the PRC (the "Suppliers") of RMB387 million in total during 2017. PwC considered that the Company's management has not yet provided sufficient explanation and evidence to support the Prepayments.

The Company then formed the Independent Investigation Committee comprising three Independent Non-executive Directors to investigate the Prepayments and review the adequacy and effectiveness of the Company's internal control systems in relation to the Prepayments.

On 12 April 2018, the Independent Investigation Committee engaged KPMG to conduct an independent investigation on the Prepayments and review the related internal control systems.

The Board announced the summary of the Investigation Report and the Internal Control Review Report on 3 September 2018. For details, please refer to the three announcements made on 3 September 2018.

The Independent Investigation Committee announced a summary of their report on 10 September 2018. At the request of a resumption guidance issued by the Stock Exchange on 18 September 2018, the Independent Investigation Committees has extended the scope of the independent investigation. The summary of the extended investigation reports was announced on 28 January 2019. After taking the advice of the Investigation Report and the Internal Control Review Report and from the PRC legal counsel of the Independent Investigation Committee, members of the Independent Investigation Committee agreed to the findings about the internal control weakness of the Group and requested the management of the Group to implement the rectification steps as soon as possible.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on pages 53 to 58.

For the year ended 31 December 2017, the remuneration of the Company's external auditor for the review of half-yearly interim financial information of the Group for the six months ended 30 June 2017 and audit of the annual consolidated financial statements of the Group for the year ended 31 December 2017 are set out in Note 29 to the consolidated financial statement. No non-audit services were provided by the external auditor in 2017.

COMPANY SECRETARY

Ms. Ngai Kit Fong of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary. Its primary contact person at the Company is Ms. Liu Simei, the Chief Financial Officer of the Company. Ms. Ngai also confirmed that she has taken no less than 15 hours of relevant professional training during the year ended 31 December 2017.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

Address: 6/F, Tower 2, Guotai Building, No. 440 Wenchang Xi Road, Yangzhou City, Jiangsu Province, PRC (with effect from 31 January 2019)

Fax: 86-514-87370101

Email: lsm@ssdjz.cn

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

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

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

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

GOING CONCERN

Group has undertaken a number of measures to improve its liquidity and insolvency with the most suitable financing with acceptable costs to meets its day-to-day working capital requirements. The directors are confident that there will not be unsolvable liquidity issues to the Group but only a temporary challenge to the management in choosing the best option for the Group. Further information on the Group's going concern is given in Note 2 to the consolidated financial statements.

An analysis of the financial risk on liquidity of the Group is included in note 3 to the consolidated financial statements.

REPORT OF THE DIRECTORS

The Board of Directors of the Company is pleased to present this report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 5 February 2008 with limited liability under the law of Cayman Islands. Upon completion of the reorganization of the Group in preparation for listing on the Stock Exchange, the Company became the holding company of the subsidiaries of the Group since 3 April 2008. Further details of the Group's reorganization are set forth in the Company's listing prospectus dated 12 March 2010 (the "Prospectus"). The Shares of the Company were listed on the Main Board of the Stock Exchange on 25 March 2010 by way of Global Offering.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

ENVIRONMENTAL POLICY

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 59 to 65 of this annual report.

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

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law (2009 Revision) of the Cayman Islands ("Companies Law"), amounted to approximately RMB-206.6 million. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

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

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2017 are set out in note 25 to the consolidated financial statements.

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

Executive Directors

Mr. Yuan Li (appointed on 26 August 2017 and appointed as Chairman on 29 December 2017)
Mr. Xin Kexia (appointed as Executive Director and Chief Executive Officer on 15 June 2018)
Mr. Xu Xinying (appointed as non-executive Director on 26 August 2017 and re-designated as Executive Director on 29 December 2017)
Ms. Liu Simei (appointed on 29 December 2017, resigned on 27 April 2018 and reappointed on 3 May 2018)
Mr. Mao Shanxin (resigned on 1 June 2017)
Mr. Lu Chaolin (resigned on 26 August 2017)
Mr. Cao Kuanping (resigned as Chairman and Chief Executive Officer on 29 December 2017 and 15 June 2018 respectively, and resigned as executive-director on 9 September 2018)
Mr. Mo Chihe (resigned on 29 December 2017)
Mr. Wang Zhijin (resigned on 29 December 2017)
Mr. Sun Lejiu (appointed on 27 April 2018 and resigned on 3 May 2018)

Non-executive Directors

Mr. Wang Cai (appointed on 1 June 2017)
Mr. Song Liwu (appointed on 1 June 2017 and resigned on 26 August 2017)
Mr. Shen Xingpeng (appointed on 29 December 2017 and resigned on 15 June 2018)

Independent Non-executive Directors

Mr. Tam Chun Chung
Mr. Zhao Jinyong (appointed on 29 December 2017)
Mr. Chen Rui (appointed on 4 July 2018)
Mr. Lo Kwong Shun Wilson (resigned on 26 August 2017)
Mr. Li Michael Hankin (appointed on 26 August 2017 and resigned on 30 June 2018)
Mr. Zhou Shuiwen (resigned on 29 December 2017)

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors of the Company are set out in the section headed "Directors' and Senior Management's Profile" section on pages 44 to 53 of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2017 and up to the date of this report, no Directors are considered to have interests, either directly or indirectly, in a business which competes or is likely to compete with the businesses of the Group, as defined in the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As set out in note 39 to the audited consolidated financial statements in this annual report, during the year ended 31 December 2017, the Group had rental expenses paid to Mr. Cao Kuanping, the ex-Chairman/CEO/executive Director of the Company, amounting to RMB3,744,000.

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

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

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

(ii) on normal commercial terms or better; and

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

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

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

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

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which are required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to therein, or under the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 14 in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Name of corporation	Capacity and Nature of interest	Aggregate number of ordinary shares or underlying shares	Approximate percentage of interest in the corporation
Yuan Li (Note)	The Company	Interest of controlled corporation	569,100,000 Shares (L)	27.65%
Cao Kuanping	The Company	Interest of controlled corporation	239,103,625 Shares (L)	11.62%
		Beneficial owner	1,000,000 Shares (L)	0.05%
		Spouse interest	1,000,000 Shares (L)	0.05%
Tam Chun Chung	The Company	Beneficial owner	500,000 underlying Shares (L)	0.03%

(L) denotes long position.

Note: The 569,100,000 shares were held by Noble Trade International Holdings Limited* (聖行國際集團有限公司) (formerly 聖商國際集團有限公司) ("Noble Trade International") as beneficial owner. Noble Trade International was 100% wholly-owned by Mogen Ltd. ("Mogen"). Mogen was 100% indirectly wholly-owned by Chongqing Saint Information Technology Co., Ltd. which was indirectly owned by Mr. Yuan Li, an Executive Director as to 40.21%.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND SECURITIES OF THE COMPANY

As at 31 December 2017, the interests or short positions of those persons (other than Directors or chief executives whose interests are disclosed above) in the ordinary shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Name of corporation	Capacity and Nature of interest	Aggregate number of ordinary shares	Approximate percentage of interest in the corporation
Mogen Ltd. (Note 1)	The Company	Interest of controlled corporation	569,100,000	27.65%
Noble Trade International Holdings Limited* (聖行國際集團有限公司) (Note 1)	The Company	Beneficial owner	569,100,000	27.65%
Chongqing Saint Information Technology Co., Ltd. (Note 1)	The Company	Interest in controlled corporation	569,100,000	27.65%
Baoshi (Tianjin) E-commerce Company Limited (Note 2)	The Company	Interest in controlled corporation	261,900,000	12.73%
Tianjin Bohai Commodity Exchange Corporation (Note 2)	The Company	Interest in controlled corporation	261,900,000	12.73%
BOCE (Hong Kong) Co., Limited (Note 2)	The Company	Beneficial owner	261,900,000	12.73%
China Ruike Investment & Development Co., Ltd.	The Company	Beneficial owner	239,103,625	11.62%
Mao Shanzhen (Note 3)	The Company	Beneficial owner	1,000,000 Underlying Shares (L)	0.05%
		Spouse Interest	240,103,625	11.67%

(L) denotes long position

Notes:

(1) The 569,100,000 shares were held by Noble Trade International Holdings Limited* (聖行國際集團有限公司) (formerly 聖商國際集團有限公司) ("Noble Trade International") as beneficial owner. Noble Trade International was 100% wholly-owned by Mogen Ltd. ("Mogen"). Mogen was 100% indirectly wholly-owned by Chongqing Saint Information Technology Co., Ltd. which was indirectly owned by Mr. Yuan Li, an Executive Director as to 40.21%.

(2) The 261,900,000 shares were held by BOCE (Hong Kong) Co., Limited ("BOCE") as beneficial owner. BOCE was wholly owned by Baoshi (Tianjin) E-commerce Company Limited which was indirectly owned by Tianjin Bohai Commodity Exchange Corporation as to 99%.

(3) These underlying shares represent the 1,000,000 share options held by Ms. Mao Shanzhen granted by the Company under the Share Option Scheme. The 240,103,625 shares represent the interests held by Mr. Cao Kuanping the resigned director, spouse of Ms. Mao Shanzhen, whose interests are disclosed in the above section headed "Directors' Interests in Shares, Underlying Shares and Debentures".

SHARE CAPITAL AND SHARE OPTION SCHEME

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

Share Option Scheme

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

(a) Purpose of the Share Option Scheme

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

(b) Participants of the Share Option Scheme

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

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

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

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

As at the date of this annual report, there are 51,106,001 option available for grant under the Share Option Scheme, representing 2% of the issued share capital of the Company.

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

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

(e) Timing for exercising option

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

(f) Payment of acceptance of option

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

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

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

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

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

(iii) the nominal value of a Share.

(h) Duration of the Share Option Scheme

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

During the year ended 31 December 2017, no share options have been granted or exercised, but 37,100,000 share options cancelled or lapsed under the Share Option Scheme.

Movement of the share options under the Share Option Scheme during the year are set out in the below table.

Name	As at 1 January 2017	Number of share Options Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2017	Approximate percentage of interest in the Company
Directors and their associate						
Cao Kuanping (resigned on 15 June 2018)	1,000,000	–	–	–	1,000,000	0.05%
Tam Chun Chung *Independent Non-Executive Director*	500,000	–	–	–	500,000	0.03%
Mao Shanxin (Note)	1,000,000	–	–	–	1,000,000	–
Lu Chaolin (Note)	5,000,000	–	–	–	5,000,000	–
Lo Kwong Shun Wilson (Note)	500,000	–	–	500,000	–	–
Wang Zhijin (Note)	8,000,000	–	–	–	8,000,000	–
Mo Chihe (Note)	10,000,000	–	–	–	10,000,000	–
Zhou Shuiwen (Note)	500,000	–	–	500,000	–	–
Mao Shanzhen *(the spouse of Cao Kuanping and the sister of Mao Shanxin)*	1,000,000	–	–	–	1,000,000	0.05%
Others						
Employees	204,180,000	–	–	36,100,000	168,080,000	10.21%
	231,680,000	–	–	37,100,000	194,580,000	

Note:

(1) Mr. Lo Kwong Shun Wilson has resigned as Directors (and all other titles with the Company) with effect from 26 August 2017, and Mr. Zhou Shuiwen has resigned as Directors (and all other titles with the Company) with effect from 29 December 2017. The share options granted to these former Directors lapsed during the year ended 31 December 2017 pursuant to the Share Option Scheme.

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

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

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

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

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank loans and other borrowings as at 31 December 2017 are set out in note 22 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 13.8% of the Group's total revenue and sales to the largest customer accounted for approximately 6.1% of the Group's total revenue for year 2017. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 30.0% of the Group's total purchases and purchases from the largest supplier accounted for approximately 13.1% of the Group's total purchases for year 2017.

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

RETIREMENT BENEFIT SCHEMES

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

PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee of the Group was established in 2010. Up to the date of this report, it comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Zhao Jinyong and Mr. Chen Rui. Mr. Tam Chun Chung, being the Chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the CG Code issued by the Stock Exchange. The principal duties of the Audit Committee are to assist the Board in reviewing the internal audit function, financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the auditor's report thereon.

AUDITOR

The financial statements for the year ended 31 December 2017 were audited by PricewaterhouseCoopers.

On behalf of the Board

Yuan Li
Chairman

Hong Kong, 29 January 2019

* *For identification purpose only*

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

1. AS OF 31 DECEMBER 2017

(1) Members of the Board of the Company are set out below:

Name	Position	Age	Term of office
Mr. Yuan Li	Chairman of the Board, Executive Director	36	26 August 2017-Now: Executive Director; 29 December 2017-Now: Chairman of the Board
Mr. Cao Kuanping	Chief Executive Officer, Executive Director	56	5 February 2008-29 December 2017: Chairman of the Board; 5 February 2008-9 September 2018: Executive Director; 5 February 2008-15 June 2018: Chief Executive Officer
Ms. Liu Simei	Executive Director	48	29 December 2017-27 April 2018, and 3 May 2018-Now
Mr. Xu Xinying	Executive Director	37	26 August 2017-29 December 2017: Non-executive Director; 29 December 2017-Now: Executive Director
Mr. Wang Cai	Non-Executive Director	37	1 June 2017-31 January 2019
Mr. Shen Xingpeng	Non-Executive Director	36	29 December 2017 - 15 June 2018
Mr. Tam Chun Chung	Independent Non-Executive Director	45	5 March 2010-30 January 2019
Mr. Zhao Jinyong	Independent Non-Executive Director	46	29 December 2017-Now
Mr. Li Michael Hankin	Independent Non-Executive Director	54	26 August 2017-30 June 2018
Mr. Chen Rui	Independent Non-Executive Director	43	5 July 2018-Now

Notes:

1. Mr. Mao Shanxin resigned as the Executive Director of the Company on 1 June 2017.
2. Mr. Lu Chaolin resigned as the Executive Director of the Company on 26 August 2017.
3. Mr. Mo Chihe resigned as the Executive Director of the Company and the member of the Nomination Committee on 29 December 2017.
4. Mr. Wang Zhijin resigned as the Executive Director of the Company on 29 December 2017.
5. Mr. Lo Kwong Shun Wilson resigned as the Independent Non-Executive Director, the member of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee of the Company on 26 August 2017.
6. Mr. Zhou Shuiwen resigned as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Nomination Committee, and the chairman of the Remuneration Committee on 29 December 2017.
7. Mr. Song Liwu was appointed as the Non-Executive Director of the Company on 1 June 2017, and resigned as the non-executive Director on 26 August 2017.

8. Mr. Shen Xingpeng was appointed as the Non-Executive Director of the Company on 29 December 2017, and resigned as the non-executive Director on 15 June 2018.

9. Mr. Li Michael Hankin was appointed as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee on 26 August 2017, and resigned as the independent non-executive Director, the member of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee of the Company on 30 June 2018.

10. Mr. Zhao Jinyong was appointed as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Nomination Committee, and the chairman of the Remuneration Committee of the Board on 29 December 2017.

(2) Directors' and Senior Management's Profile

(a) Executive Directors

Mr. Yuan Li (袁力先生), aged 36, was appointed to the Board on 26 August 2017 as an Executive Director of the Company, and was appointed as the Chairman of the Board of the Company and the member of the Remuneration Committee on 29 December 2017. Mr. Yuan is studying for an EMBA at the Cheung Kong Graduate School of Business, and has studied in 26 institutions such as National School of Development at Peking University, Tsinghua PBC School of Finance and ICC-Yale. He has many years of experience in real estate, Internet, education, finance, creative economics such as new retail, and management. Mr. Yuan has been the chairman of the board of directors of Chongqing Saint Information Technology Co., Ltd. (重慶聖商信息科技有限公司), Noble Trade (Beijing) Holdings Group Co., Ltd.* (聖行(北京)控股集團有限公司) and Beijing Shengshang Education Technology Co., Ltd. (北京聖商教育科技股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 430277) since September 2014, November 2015 and September 2016 respectively. He has been the director of Guangdong Avi Low Carbon Technology Co., Ltd.* (廣東埃文低碳科技股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 871556) since August 2016. Mr. Yuan has first created the "Education, Real Estate, Finance" ecological platform model since 2014, achieving high market efficiency. Mr. Yuan is currently a director of Noble Trade International Holdings Limited* (聖行國際集團有限公司). Mr. Yuan currently serves as the executive director of the China Chamber of International Commerce, the special member of the Beijing Liaison Committee of the China National Democratic Construction Association, the vice president of the 1st Governing Council of the Beijing AiEr Foundation, and the co-chairman of the Zhongguancun Private Equity & Venture Capital Association in Beijing.

Mr. Cao Kuanping (曹寬平先生), aged 56, founder of the Group, is responsible for the overall sales, marketing, development and strategic planning of the Company. Mr. Cao has extensive experience in the home appliances and consumer electronic products industry of more than 20 years. Mr. Cao has been a director of China Ruika Investment & Development Co., Ltd. since April 2008, an investment holding company wholly owned by him. In 2009, Mr. Cao obtained his executive MBA under the Tsinghua Executive MBA Program which is a part-time programme launched by Tsinghua University. Mr. Cao also completed the EMBA programme and obtained the degree of executive master of business administration from Cheung Kong Graduate School of Business in September 2013. Mr. Cao resigned as the Chairman of the Board, Chief Executive Officer and executive Director on 29 December 2017, 15 June 2018 and 9 September 2018, respectively.

Ms. Liu Simei (劉思鎂女士), aged 48, was appointed as the Executive Director of the Company on 29 December 2017, and has also served as the chief financial officer (CFO) of the Company since 15 November 2018. Ms. Liu has more than 28 years of experience in financial and accounting matters. Prior to joining the Company in July 2017, Ms. Liu held senior position in the finance management department in Jiangsu Baosheng Group Company* (江蘇寶勝集團公司) (a company listed on the Shanghai Stock Exchange, stock code: 600973) from 1989 to 2001. From 2001 to June 2017, she worked as an auditor in Jiangsu Dahua Certified Public Accountants Co., Ltd.* (江蘇大華會計師事務所有限公司) and her last position was senior auditor. Ms. Liu obtained her first MBA degree from Tsinghua University in the People's Republic of China and her second MBA degree from Oxford University in the United Kingdom. She is currently a member of The Chinese Institute of Certified Public Accountants.

Mr. Xu Xinying (徐新穎先生), aged 37, was appointed as the Non-Executive Director of the Company on 26 August 2017, and was re-designated as the Executive Director of the Company on 29 December 2017. Mr. Xu has many years of experience in logistics, retail and management, and has published two bestselling economics books in 2016 and 2017. He has been the director of Chongqing Saint Information Technology Co., Ltd.* (重慶聖商信息科技有限公司), Noble Trade (Beijing) Holdings Group Co., Ltd.* (聖行(北京)控股集團有限公司) and Beijing Shengshang Education Technology Co., Ltd. (北京聖商教育科技股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 430277) since September 2014, November 2015 and September 2016, respectively. He graduated from Jilin University with the business administration undergraduate degree. He is qualified to engage in fund business in China.

(b) Non-Executive Director

Mr. Wang Cai (王偲先生), aged 37, has been appointed as the Non-Executive Director of the Company since 1 June 2017. Mr. Wang has more than 10 years of accounting experience. Mr. Wang was the finance manager of the Anthem Properties Group from 2006 to 2010. He joined Tianjin Bohai Commodity Exchange Corporation in 2010, and has been the general manager of the investment and asset management department since 2017. Mr. Wang is currently a member of the Chartered Professional Accountants of Canada and the Association of Chartered Certified Accountants. Mr. Wang obtained a bachelor degree in business administration from the Simon Fraser University in 2006.

Mr. Shen Xingpeng (沈興鵬先生), aged 36, has been appointed as non-executive director of the Company since 29 December 2017. Mr. Shen has worked in the fortune global 500 companies, including Nokia and Changyou.com Limited (a company listed on Nasdaq, stock code: CYOU), and has extensive experience in providing technical, management and consulting services to leading training, management and consulting institutions in the People's Republic of China including Shengjing Technology Co.,Ltd.* (盛景網聯科技股份有限公司). Mr. Shen joined Noble Trade (Beijing) Holdings Group Co., Ltd.* (聖行(北京)控股集團有限公司) in 2015 and was responsible for providing business, listing and transformation and upgrading of the business operation system consultation services to customers. Mr. Shen is currently the vice president of Noble Trade (Beijing) Holdings Group Co., Ltd. (聖行(北京)控股集團有限公司).

Mr. Shen obtained his bachelor degree in science from the Xidian University in July 2004, and his master's degree in science from the same university in March 2007. Mr. Shen was a on-job Ph.D candidate from August 2008 and obtained his Ph.D degree from the Beijing University of Posts and Telecommunications in September 2014.

(c) Independent Non-Executive Director

Mr. Tam Chun Chung (譚振忠先生), aged 46, was appointed as an Independent Non-Executive Director of the Company on 5 March 2010. He is also the chairman of the Audit Committee. He was appointed as chairman of Independent Investigation Committee on 2 April 2018. Mr. Tam has over a decade of experience in the accounting and audit field. Mr. Tam has been an independent non-executive director of Lap Kei Engineering (Holdings) Limited (the shares of which were listed on GEM, stock code: 8369, and subsequently were listed on the Main Board of the Stock Exchange, stock code: 1690), which is a company listed on the GEM of the Stock Exchange, since 10 September 2015. He has been a joint company secretary of China Railway Group Limited (中國中鐵股份有限公司) (stock code: 0390), which is a company listed on the Main Board of the Stock Exchange, since November 2007. Prior to joining China Railway Group Limited (中國中鐵股份有限公司), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (stock code: 0549, delisted in June 2017), which is a company listed on the Main Board of the Stock Exchange, from September 2005 to November 2007. Between 2000 and 2005, he worked in the finance department in China Motion Telecom International Limited (stock code: 0989), which is a company listed on the Main Board of the Stock Exchange, as an assistant manager, and was subsequently promoted to the position as a senior manager. From 1994 to 2000, Mr. Tam was employed by KPMG and was subsequently promoted to the position as an assistant manager. He has been a member of the Hong Kong Institute of Certified Public Accountants since December 1997 and a fellow of the Association of Chartered Certified Accountants since November 2002. Mr. Tam graduated from the Chinese University of Hong Kong in December 1994 with degree of bachelor of business administration. He further obtained an Executive Master of Business Administration from the Chinese University of Hong Kong in November 2015.

Mr. Zhao Jinyong (趙金勇先生), aged 46, was appointed as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Nomination Committee, and the chairman of the Remuneration Committee on 29 December 2017. Mr. Zhao was appointed as a member of Independent Investigation Committee on 2 April 2018. Mr. Zhao have extensive experience in providing audit and consultancy services. Mr. Zhao obtained a bachelor degree in accountancy from Beijing Jiaotong University in 1995. After obtaining his bachelor degree in accountancy, Mr. Zhao taught at Beijing Jiaotong University until 1999. He was a senior auditor at Arthur Andersen and PricewaterhouseCoopers from 1999 to 2002, a consulting manager at BearingPoint Inc. from 2003 to 2007, and a consulting director at the Global Business Services Department of IBM from 2007 to 2011. From 2011 onwards, Mr. Zhao has been the head of the consulting services department of Kingdee Software, the dean of Post-EMBA Program at Peking University of the People's Republic of China and the executive secretary of the Business Promotion Association of Peking University of the People's Republic of China. He is currently the chief executive officer of Beijing Friendship Investment Management Co., Ltd.* (北京厚誼投資管理有限公司).

Mr. Li Michael Hankin (李恆健先生), aged 54, was appointed as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee on 26 August 2017. Mr. Li was appointed as a member of Independent Investigation Committee on 2 April 2018. Mr. Li has more than 20 years of experience in financial and accounting matters, fundraising, mergers and acquisitions, restructuring and international business development. During the period from March 1994 to June 2004, Mr. Li was the executive director (Corporate Finance) at BNP Paribas Capital (Asia Pacific) Limited (法國巴黎資本 (亞太) 有限公司). During the period from July 2004 to December 2005, Mr. Li was employed at GoldBond Capital (Asia) Limited (金榜融資 (亞洲) 有限公司) and was a managing director (investment banking) of Rothschild (Hong Kong) Limited (洛希爾 (香港) 有限公司) during the period from March 2007 to May 2011. Mr. Li worked at several listed companies as head of corporate finance, general manager of investor relations and mergers and acquisitions including as head of corporate finance of GCL-Poly Energy Holdings Limited (保利協鑫能源控股有限公司) (a company listed on the Stock Exchange, stock code: 3800) since July 2014 and as general manager of investor relations & mergers and acquisitions of Newton Resources Limited (新礦資源有限公司) (a company listed on the Stock Exchange, stock code: 1231) in 2013. Mr. Li also worked at several international banks where he had led numerous fund raising exercises in Hong Kong and the United States. Mr. Li was appointed as an independent non-executive director of COFCO Meat Holdings Limited (中糧肉食控股有限公司) (a company listed on the Stock Exchange, stock code: 1610) in May 2016. Mr. Li is currently a director of Banro Corporation, which is listed on the Toronto Stock Exchange and NYSE MKT Exchange. Mr. Li obtained a master of business administration degree from Columbia University, New York in May 1992 and a bachelor degree in accountancy from University of California at Los Angeles in June 1985. Mr. Li resigned as the independent non-executive Director of the Company, the member of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee and the member of the Independent Investigation Committee on 30 June 2018.

2. AS OF THE DATE OF THE REPORT

(1) Members of the Board of the Company are set out below:

Name	Position	Age	Term of office
Mr. Yuan Li	Chairman of the Board, Executive Director	36	26 August 2017-Now: Executive Director; 29 December 2017-Now: Chairman of the Board
Mr. Xin Kexia	Chief Executive Officer, Executive Director	49	15 June 2018-Now
Ms. Liu Simei	Executive Director	48	29 December 2017-27 April 2018, and 3 May 2018-Now
Mr. Xu Xinying	Executive Director	37	26 August 2017-29 December 2017: Non-executive Director; 29 December 2017-Now: Executive Director
Mr. Wang Cai	Non-Executive Director	37	1 June 2017-Now
Mr. Tam Chun Chung	Independent Non-Executive Director	45	5 March 2010-Now
Mr. Zhao Jinyong	Independent Non-Executive Director	46	29 December 2017-Now
Mr. Chen Rui	Independent Non-Executive Director	43	4 July 2018-Now

Notes:

1. Mr. Cao Kuanping resigned as the Chief Executive Officer of the Company on 15 June 2018 and resigned as the Executive Director of the Company and the member of the Nomination Committee on 9 September 2018.

2. Ms. Liu Simei was appointed as the Executive Director of the Company on 29 December 2017, and resigned as the Executive Director of the Company on 27 April 2018. Ms. Liu was re-appointed as the Executive Director on 3 May 2018.

3. Mr. Shen Xingpeng resigned as the Non-Executive Director of the Company on 15 June 2018.

4. Mr. Li Michael Hankin resigned as the Independent Non-Executive Director of the Company, the member of the Audit Committee, the Remuneration Committee and the Independent Investigation Committee, and the chairman of the Nomination Committee of the Board on 30 June 2018.

5. Mr. Sun Lejiu was appointed as the Executive Director of the Company on 27 April 2018, and resigned as the Executive Director of the Company on 3 May 2018.

6. Mr. Xin Kexia was appointed as the Executive Director and the Chief Executive Officer of the Company on 15 June 2018.

7. Mr. Chen Rui was appointed as the Independent Non-Executive Director, the member of the Audit Committee, the Remuneration Committee and the Independent Investigation Committee, and the chairman of the Nomination Committee of the Board on 4 July 2018.

(2) Directors' and Senior Management's Profile

(a) Executive Directors

Mr. Yuan Li (袁力先生), aged 36, was appointed to the Board on 25 August 2017 as an Executive Director of the Company, and was appointed as the Chairman of the Board of the Company and the member of the Remuneration Committee on 29 December 2017. For Mr. Yuan Li's profile, please refer to subsection (2)(a), part 1 under this section.

Mr. Xin Kexia (辛克俠先生), aged 49, was appointed as the Executive Director and the Chief Executive Officer of the Company on 15 June 2018. He served as a director and the chief executive officer of Brookstone Electronics Co., Ltd. from September 2017 to May 2018. He also served as the president of Jiangsu Hongtu High Technology Co., Ltd., a company listed on the Shanghai Stock Exchange with stock code 600122, from September 2014 to May 2018, a director and the president of HISAP High-technology Co., Ltd. from September 2017 to May 2018 and from August 2014 to August 2017, respectively. From 1 April 2015 to 2 March 2018, he served as the non-executive director of IDT International Limited, a company listed on the Main Board of the Stock Exchange with stock code 00167. In addition, Mr. Xin Kexia was a vice president of Yuexing Group Co., Ltd. from August 2012 to January 2014, a vice president of Gome Retail Holdings Limited from May 2004 to August 2010 and a general manager of Haier Group Co., Ltd. from July 1996 to April 2004.

Ms. Liu Simei (劉思鎂女士), aged 48, was appointed as the Executive Director of the Company on 29 December 2017, and is the Chief Financial Officer of the Company since 15 November 2018. For Ms. Liu Simei's profile, please refer to subsection (2)(a), part 1 under this section.

Mr. Xu Xinying (徐新穎先生), aged 37, was appointed as the Non-executive Director of the Company on 26 August 2017, and is re-designated as the Executive Director of the Company on 29 December 2017. For Mr. Xu Xinying's profile, please refer to subsection (2)(a), part 1 under this section.

(b) Non-Executive Director

Mr. Wang Cai (王偲先生), aged 37, has been appointed as the Non-Executive Director of the Company since 1 June 2017. For Mr. Wang Cai's profile, please refer to subsection (2)(a), part 1 under this section.

(c) Independent Non-Executive Directors

Mr. Tam Chun Chung (譚振忠先生), aged 46, was appointed as an Independent Non-Executive Director of the Company on 5 March 2010. For Mr. Tam Chun Chung's profile, please refer to subsection (2), part 1 under this section.

Mr. Zhao Jinyong (趙金勇先生), aged 46, was appointed as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Nomination Committee, and the chairman of the Remuneration Committee of the Board on 29 December 2017. For Mr. Zhao Jinyong's profile, please refer to subsection (2)(a), part 1 under this section.

Mr. Chen Rui (陳睿先生), aged 43, was appointed as the Independent Non-Executive Director of the Company, member of Audit Committee and Remuneration Committee and a chairman of Nomination Committee on 4 July 2018. He was appointed as a member of the Independent Investigation Committee on 4 July 2018. He is currently serving as the chairman of the board of Beijing Adfaith Consulting Co., Ltd.* (北京正略鈞策諮詢股份有限公司) and has approximately 16 years of experience in management and investment consulting. He is currently a visiting professor at the University of International Business and Economics (對外經濟貿易大學) and Central University of Finance and Economics (中央財經大學), respectively. Mr. Chen Rui graduated from the University of Leeds with a master degree in Business Administration.

(d) Senior Management

Mr. Sun Lejiu (孫樂久先生), aged 41, is the senior vice president of the Group. He graduated from Shenyang Jianzhu University (formerly known as Shenyang Institute of Architecture and Civil Engineering) in July 2000 with a bachelor's degree. He served as regional general manager in HGTECH Co., Ltd. (華工科技股份有限公司) from November 2001 to October 2005, as vice president in Liaoning Xin Yida Group Corporation (遼寧鑫億達集團公司) from November 2005 to October 2012, and as vice president of FAB Jingcai Corporation Group (FAB精彩企業集團) from November 2012 to May 2014. He has been the director of Beijing Shengshang Education Technology Co., Ltd. (北京聖商教育科技股份有限公司) since September 2017 to date.

Ms. Li Jing (李晶女士), aged 47, is the vice president of human resources of the Group. She worked in Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd.* (北京同仁堂健康藥業股份有限公司), Beijing Aspiring Integrated Marketing Co., Ltd.* (北京海天眾意整合營銷有限公司), Gome Holdings Group as the director of human resources and vice president of human resources. She is adept at the control of parent company and its subsidiaries, the establishment and the monitoring of the implementation of team succession system, remuneration and performance system, authorization system, process standard system, and control mechanism.

Mr. Gao Zhenyu (高振宇先生), aged 40, is the senior vice president of the Group. He has served as the general manager and assistant to vice president of the branch company of GOME Electrical Appliances (國美電器), as well as the general manager of Beijing Sanren Group Management Co., Ltd. (北京三仁集團管理有限公司). After joining the Sanpower Group in 2014 and serving as the vice executive president of HISAP, Gao Zhenyu is mainly responsible for the establishment of the supply chain for Brookstone products, driving HISAP's transition towards the novel Hongtu Brookstone. Gao Zhenyu is currently the vice president of Brookstone China in the Sanpower Group. For the past years, he has engaged in product supply chain integration and brand marketing, obtaining vast experience.

Mr. Wang Xiaofei (王笑扉先生), aged 41, is the CTO of the Group. He served as the consulting manager of IBM and the technical general manager of Sanpower Group Co., Ltd., with experience working in leading state-owned enterprises, foreign-invested enterprises and private enterprises. He also has 4 years of experience as an entrepreneur, having deep understanding in the operation model of different businesses. Mainly specialized in IT/DT technology, he is also experienced in implementing corporate solutions for communication, medical and health and retail business, with his own experience and approach for business model design, product planning, enterprise strategy consultation and corporate management, as well as an open mind and sharp logic.

Ms. Huang Qiuling (黃秋玲女士), aged 58, is the director of audit of the Group. She has engaged in financial auditing for many years, serving as the deputy financial officer of Huajing Electronics, director of the audit department of Wuxi Puxin Certified Public Accountants Co., Ltd.* (無錫普信會計師事務所) and the auditing director of Suzhou Dehe Group* (德合集團). She can perform off-office auditing on different operation aspects of a company, provide consultation on important commercial activities and investment decisions, and review and evaluate the implementation effect of different decisions.

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Huiyin Smart Community Co., Ltd
(Incorporated in the Cayman Islands with Limited Liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Huiyin Smart Community Co., Ltd (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 147, which comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group because we have not been able to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. Prepayments and Independent Investigation

1(a) Prepayments to Two Television Set Suppliers

As described in Note 15(a(i)) to the consolidated financial statements, Yangzhou Huiyin Technology Group Co. Ltd. ("Yangzhou Huiyin", an operating subsidiary of the Group) made prepayments to two television set suppliers (Yangzhou Suohai Electronics Co. Ltd ("Suohai") and Jiangsu Zhipu Electronics Appliance Co. Ltd ("Zhipu")) during the year ended 31 December 2017 amounted to RMB677,298,000 and RMB336,120,000 respectively, which were significantly larger than their respective actual purchase amounts of RMB121,389,000 and RMB44,224,000 for the year 2017. Although Yangzhou Huiyin received refunds totalled RMB442,525,000 and RMB191,959,000 from Suohai and Zhipu respectively during the same year, the prepayments to Suohai and Zhipu still amounted to RMB225,887,000 and RMB161,476,000 respectively as at 31 December 2017.

Management subsequently believed that these two suppliers are in financial difficulties and therefore the Group has ceased conducting any new businesses with them since January 2018. As described in the same note, while the Group initiated legal proceedings against these suppliers in September 2018 with a view to collecting the outstanding prepayments, it also decided to set aside impairment provisions of RMB225,887,000 and RMB140,736,000 against these outstanding prepayment balances as at 31 December 2017.

BASIS FOR DISCLAIMER OF OPINION *(Continue)*

1. Prepayments and Independent Investigation *(Continue)*

1(a) Prepayments to Two Television Set Suppliers *(Continue)*

During the course of our audit and in connection with an investigation to be described below, we also noted that (i) certain current/former employees of Yangzhou Huiyin were shareholders of Suohai and Zhipu during their course of employment with Yangzhou Huiyin; (ii) the operating address of Suohai was the same as that of a private investment company wholly owned by the former chairman and former chief executive officer of the Group; and (iii) the operating address of Zhipu was the same as that of a subsidiary of the Group.

1(b) Prepayment to an Air-conditioner Supplier

As described in Note 15(a(ii)) to the consolidated financial statements, the Group had a prepayment balance of RMB63,215,000 with an air-conditioner supplier as at 31 December 2017. The Group set aside an impairment provision of RMB48,737,000 against this prepayment balance in 2017 according to a supplier confirmation sent by the air-conditioner supplier in December 2017 ("Supplier Confirmation") which stated an outstanding amount of RMB14,478,000 only as at 31 December 2017. The Supplier Confirmation was not provided to us until August 2018. However, according to an independent audit confirmation obtained by us from the same air-conditioner supplier in March 2018, the prepayment balance as at 31 December 2017 was confirmed as RMB177,904,000, which was significantly different from that stated in the Supplier Confirmation. In accordance with the second independent confirmation we obtained in October 2018 from the same air-conditioner supplier, the prepayment balance as at 31 December 2017 was confirmed as RMB14,478,000.

In addition, the Investigation (to be described below) has identified that one employee of the operating subsidiary of the Group which sourced products from the air conditioner supplier had a 10% shareholding in the air conditioner supplier since 2008.

In response to the matters described in 1(a) and 1(b) above, among other things, the Board of Directors of the Group formed an Investigation Committee ("IC") in April 2018 to commission an independent investigation involving a third party consultant to investigate these matters (the "Investigation"). The first Investigation report was dated 28 August 2018, while the second and third Investigation reports (together the "New Investigation reports") were dated 25 December 2018 but were first submitted to the Stock Exchange of Hong Kong Limited on 25 January 2019. However, management of the Company insisted that we have to issue our audit report on the Group's consolidated financial statements as at and for the year ended 31 December 2017 soon after the New Investigations reports were first submitted by the Company to The Stock Exchange of Hong Kong Limited. Moreover, there were a number of limitations encountered during the Investigation, and similar limitations were encountered by us when we performed our extended audit procedures in response to these matters.

BASIS FOR DISCLAIMER OF OPINION *(Continue)*

1. Prepayments and Independent Investigation *(Continue)*

For the prepayments described in 1(a) above, as at the date of this report, management was not able to provide us with the following evidences and explanations:

- reasonable explanations for making prepayments to the two suppliers which were significantly larger than their respective purchase amounts in 2017, and why such prepayments were not supported by reasonable sales and purchase plans approved by management;
- reasonable explanation for not conducting detailed credit risk assessments on the two suppliers before making the significant prepayments to them in 2017;
- reasonable explanation together with the related supporting evidences for the significant refunds of prepayments in 2017;
- reasonable explanation as to why (i) certain current/former employees of the Group had shareholdings in the two suppliers during the course of their employment with Yanzhou Huiyin; (ii) Suohai's operating address was the same as that of a related party to the Group; and (iii) Zhipu's operating address was the same as that of a subsidiary of the Group;
- sufficient supportive evidences to justify the basis of impairment provisions made in 2017 against these prepayments or enable us to evaluate the financial positions of the two suppliers.

For the prepayments described in 1(b) above, as at the date of this report, management was not able to provide the following evidences and explanations:

- a reconciliation for the significant difference of RMB163,426,000 between the amount stated in the first independent audit confirmation reply of RMB177,904,000 and that stated in the Supplier Confirmation of RMB14,478,000 provided by the Group, together with the related supporting evidences;
- a reconciliation for the significant difference of RMB48,737,000 between the prepayment balance of RMB63,215,000 as at 31 December 2017 per management accounts and that per the Supplier Confirmation of RMB14,478,000, together with the related supporting evidences;
- the basis for the impairment provision made against the outstanding prepayment as at 31 December 2017; and
- reasonable explanation for an employee of the Group holding a 10% interest in the air-conditioner supplier.

BASIS FOR DISCLAIMER OF OPINION *(Continue)*

1. Prepayments and Independent Investigation *(Continue)*

As described above, management of the Company insisted that we have to issue our audit report soon after the New Investigations reports were first submitted by the Company to The Stock Exchange of Hong Kong Limited. We were therefore not able to review the substantive evidences, if any, that might be contained in the Company's future responses to any enquiries by the relevant authorities on the Investigation and the New Investigation reports (the "Company's Responses to Regulatory Enquiries"). Due to this and the above-mentioned scope limitations, we were unable to obtain sufficient appropriate audit evidence, and there were no alternative audit procedures we could perform to satisfy ourselves as to:

(i) the business rationale and commercial substance of the relevant transactions with these suppliers, and the occurrence, accuracy, completeness and valuation of the relevant prepayment balances as at 31 December 2017 and for the year then ended; and

(ii) whether the impact of the above-mentioned transactions have been properly accounted for and disclosed in the Group's consolidated financial statements in 2017 and the corresponding period.

2. Service transactions

2(a) Unrecorded service fee under a financial consulting service agreement

In August 2018, management provided to us a financial consulting service agreement entered into between the Group and a British Virgin Islands incorporated company, Lucky Express Holdings Limited ("Lucky Express") dated 29 December 2016. In accordance with the financial consulting service agreement, Lucky Express was engaged for a period of one year from the date of the agreement to provide financial consulting service in connection with the disposal of the real estate business of the Group. The consulting service fee stated in the agreement was approximately RMB3.69 million. However, neither the financial consulting service agreement nor the existence of business arrangement with Lucky Express were previously provided or communicated to us prior to August 2018.

The disposal of the real estate business of the Group to a third party was completed on 25 December 2016 and recorded in the Group's 2016 consolidated financial statements. However, we noted that the financial consulting service agreement was dated 29 December 2016, which was a few days after the completion date of the disposal. We were informed by management after August 2018 that the Group decided not to recognize such financial consulting service fee of RMB3.69 million in its 2016 or 2017 consolidated financial statements because, other than the financial consulting service agreement, management was not able to contact Lucky Express or locate other supporting documents to substantiate the nature and occurrence of the consulting service transaction.

Management was also not able to provide us with satisfactory explanations as to why the financial consulting service agreement was not provided to us prior to August 2018, nor was it able to provide satisfactory explanations or adequate evidence as to the identity of Lucky Express and its relationship with the Group, if any.

BASIS FOR DISCLAIMER OF OPINION *(Continue)*

2. Service transactions *(Continue)*

2(a) Unrecorded service fee under a financial consulting service agreement *(Continue)*

Due to the above-mentioned scope limitations, and because of the limitations encountered during the Investigation and the restriction imposed on us from being able to have access to the substantive evidences, if any, that might be contained in the Company's Responses to Regulatory Enquiries as described in section 1 above, we were not able to ascertain whether the financial consulting service had ever been provided to the Group, and whether the Group had provided us with all information that was relevant to the preparation of the consolidated financial statements. There were no other alternative audit procedures that we could perform to satisfy ourselves as to whether and how much of the relevant service fees should have been recorded in 2016 and 2017, and whether there existed similar undisclosed transactions which could significantly affect the reported balances and amounts in the consolidated financial statements of the Group.

2(b) Payment for a consulting service agreement

As described in Note 29 (a) to the consolidated financial statements, the Group made an upfront payment of RMB1.5 million in 2017 to an individual who was engaged to provide consulting services in relation to certain fund raising activities of the Group in accordance with a consulting service agreement entered into between the Group and the individual with a total contract amount of RMB3 million. Such upfront payment of RMB1.5 million was recorded as general and administrative expense in 2017, while the remaining RMB1.5 million was not paid or accrued by the Group as management believed the fund raising activities were not successfully executed and the remaining amount under the consulting service agreement will not be paid in the future.

As at the date of this report, management was not able to provide us with sufficient supporting information and reasonable explanation, including the deliverables or related communication records between the Group and the individual in relation to this consulting service allegedly rendered by the individual. We were also not able to obtain other corroborative evidences from that individual to substantiate the nature of the payment and the relevant consulting service.

Due to the above-mentioned scope limitations, and because of the limitations encountered during the Investigation and the restriction imposed on us from being able to have access to the substantive evidences, if any, that might be contained in the Company's Responses to Regulatory Enquiries as described in section 1 above, there were no alternative audit procedures we could perform to satisfy ourselves as to:

- the nature and commercial substance of the RMB1.5 million payment recorded pursuant to the consulting service agreement; and
- the occurrence, accuracy, completeness and classification of the RMB1.5 million expense recorded in 2017, and whether the remaining unpaid consulting service fee of RMB1.5 million pursuant to the consulting service agreement should be accrued as at 31 December 2017.

RESPONSIBILITY OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing and to issue an auditor's report. We report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because we have not been able to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. 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.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Tang Wai Tung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 January 2019

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**27,740**	45,857
Property, plant and equipment	7	**183,377**	225,737
Investment properties	8	**5,235**	5,405
Intangible assets	9	**851**	3,744
Investment in joint ventures	10	**–**	–
Investment in associates	11	**–**	934
Deferred income tax assets	12	**–**	11,486
		217,203	293,163
Current assets			
Inventories	13	**257,977**	228,547
Trade and bills receivables	14	**39,842**	68,524
Prepayments, deposits and other receivables	15	**165,607**	499,756
Restricted bank deposits	16	**278,350**	646,712
Cash and cash equivalents	17	**56,496**	159,118
		798,272	1,602,657
Total assets		**1,015,475**	1,895,820
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	**13,739**	11,462
Reserves	19	**(212,033)**	302,852
		(198,294)	314,314
Non-controlling interests in equity		**28,756**	22,436
Total equity		**(169,538)**	336,750

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**7,062**	7,358
Deferred income tax liabilities	12	**–**	211
Deferred government grants	23	**–**	2,701
		7,062	10,270
Current liabilities			
Trade and bills payables	20	**683,732**	850,852
Accruals and other payables	21	**308,645**	326,047
Borrowings	22	**131,289**	305,084
Current income tax liabilities		**725**	13,257
Other current liabilities	24	**53,560**	53,560
		1,177,951	1,548,800
Total liabilities		**1,185,013**	1,559,070
Total equity and liabilities		**1,015,475**	1,895,820

The notes on pages 66 to 147 are an integral part of these financial statements.

Yuan Li
Director

Liu Simei
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	As at 31 December 2017 RMB'000	 2016 RMB'000
Revenue	26	**1,347,436**	1,384,029
Cost of sales	29	**(1,315,776)**	(1,327,070)
Gross profit		**31,660**	56,959
Other income	27	**36,101**	20,221
Other losses – net	28	**(13,134)**	(90,676)
Selling and marketing expenses	29	**(198,674)**	(188,474)
Administrative expenses	29	**(532,719)**	(456,516)
Operating loss		**(676,766)**	(658,486)
Finance income	32	**6,061**	11,807
Finance costs	32	**(34,935)**	(54,122)
Finance costs – net	32	**(28,874)**	(42,315)
Share of loss of a joint venture	10	**(27,500)**	(1,148)
Share of loss of an associate	11	**(122)**	(211)
Loss before income tax		**(733,262)**	(702,160)
Income tax expense	33	**(2,910)**	(28,026)
Loss for the year		**(736,172)**	(730,186)
Attributable to:			
– Equity holders of the Company		**(720,604)**	(722,752)
– Non-controlling interests		**(15,568)**	(7,434)
		(736,172)	(730,186)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	34	**(38.76)**	(45.25)
– Diluted	34	**(38.76)**	(45.25)

The notes on pages 66 to 147 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss for the year	**(736,172)**	(730,186)
Other comprehensive income or loss	**–**	–
Total comprehensive loss for the year	**(736,172)**	(730,186)
Attributable to:		
– Equity holders of the Company	**(720,604)**	(722,752)
– Non-controlling interests	**(15,568)**	(7,434)
	(736,172)	(730,186)

The notes on pages 66 to 147 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to equity holders of the Company							
	Note	Share capital RMB'000 (Note 18)	Share premium RMB'000 (Note 19)	Statutory reserves RMB'000 (Note 19)	Other reserves RMB'000	Accumulated losses RMB'000 (Note 19)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		9,708	1,201,278	28,007	(14,274)	(460,253)	764,466	12,833	777,299
Comprehensive loss									
Loss/total comprehensive loss for the year 2016		–	–	–	–	(722,752)	(722,752)	(7,434)	(730,186)
Issue of ordinary shares	18	1,754	179,131	–	–	–	180,885	–	180,885
Share Option Scheme - value of employee services	18	–	–	–	44,832	–	44,832	–	44,832
Capital contribution from non-controlling interests		–	–	–	52,440	(5,557)	46,883	17,037	63,920
Total transactions with owners, recognised directly in equity		1,754	179,131	–	97,272	(5,557)	272,600	17,037	289,637
Balance at 31 December 2016		11,462	1,380,409	28,007	82,998	(1,188,562)	314,314	22,436	336,750
Balance at 1 January 2017		**11,462**	**1,380,409**	**28,007**	**82,998**	**(1,188,562)**	**314,314**	**22,436**	**336,750**
Comprehensive loss									
Loss/total comprehensive loss for the year 2017		**–**	**–**	**–**	**–**	**(720,604)**	**(720,604)**	**(15,568)**	**(736,172)**
Capital contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**2,000**	**2,000**
Issue of ordinary shares	18	**2,277**	**233,322**	**–**	**–**	**–**	**235,599**	**–**	**235,599**
Return of capital and dividend paid to non-controlling interests in liquidation of a subsidiary	25(c)	**–**	**–**	**–**	**(207)**	**–**	**(207)**	**(2,088)**	**(2,295)**
Transaction with non-controlling interest holders for additional interest in subsidiaries	25(c)	**–**	**–**	**–**	**(27,396)**	**–**	**(27,396)**	**21,976**	**(5,420)**
Total transactions with owners, recognised directly in equity		**2,277**	**233,322**	**–**	**(27,603)**	**–**	**207,996**	**21,888**	**229,884**
Balance at 31 December 2017		**13,739**	**1,613,731**	**28,007**	**55,395**	**(1,909,166)**	**(198,294)**	**28,756**	**(169,538)**

The notes on pages 66 to 147 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows used in operating activities:			
Cash used in operations	36	**(195,856)**	(116,949)
Interest paid		**(32,922)**	(41,799)
Income tax paid		**(4,167)**	(5,456)
Net cash used in operating activities		**(232,945)**	(164,204)
Cash flows from investing activities:			
Cash acquired from acquisition of a subsidiary	10	**–**	16,789
Proceeds from disposal of subsidiary, net of cash disposed	10	**–**	162,895
Purchase of property, plant and equipment	7	**(9,866)**	(1,877)
Purchase of intangible assets	9	**(5,406)**	(1,600)
Proceeds from disposal of property, plant and equipment	7	**158**	816
Investment in short term investments		**(18,000)**	–
Proceeds from disposal of short term investments		**18,000**	–
Investment in a joint venture	10	**(27,500)**	–
Additional loan to a joint venture	10	**–**	(17,200)
Interest received		**7,421**	11,824
Net cash (used in)/generated from investing activities		**(35,193)**	171,647
Cash flows from financing activities:			
Proceeds from advance from a related party		**25,000**	–
Proceeds from advance from equity investor of an associate		**100,000**	–
Repayments of advance from equity investor of an associate		**(72,200)**	–
Proceeds from bank borrowings	22	**182,600**	315,408
Proceeds from advance from third parties, interest bearing	21	**115,600**	347,801
Repayments of bank borrowings	22	**(353,591)**	(478,639)
Repayments of advance from third parties, interest bearing	21	**(67,600)**	(349,800)
Repayments of advance from third parties, non-interest bearing		**(14,761)**	(10,000)
Redemption of Convertible bonds	22	**–**	(68,944)
Decrease/(increase) in restricted bank deposits pledged for bank borrowings	16	**96,323**	(478)
Proceeds from issuance of ordinary shares	18	**235,599**	180,885
Deposits received from subscription of ordinary shares of the Company		**2,930**	80,258
Repayment of deposits received from subscription of ordinary shares of the Company		**(80,258)**	–
Capital contribution from a non-controlling interest holder		**2,000**	63,920
Return of capital and dividend paid to a non-controlling interest holder in liquidation of a subsidiary		**(2,295)**	–
Cash paid to a non-controlling interest holder in acquisition of additional interest in subsidiaries		**(3,200)**	–
Net cash generated from financing activities		**166,147**	80,411

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
(Decrease)/increase in cash and cash equivalents		**(101,991)**	87,854
Cash and cash equivalents at beginning of the year	17	**159,118**	71,500
Exchange differences on cash and cash equivalents		**(631)**	(236)
Cash and cash equivalents at end of the year	17	**56,496**	159,118

The notes on pages 66 to 147 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL INFORMATION

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

The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the "Group") are mainly engaged in the retail of household appliance, import merchandise and provision of maintenance and installation services for household appliances in the People's Republic of China (the "PRC").

The shares of the Company ("Shares") were listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 25 March 2010. On 26 March 2018, trading of the Shares of the Company were suspended on the Stock Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the Hong Kong Companies Ordinance Cap.622 ("HKCO"). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

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

2.1.1 Going Concern Basis

The Group incurred a net loss attributable to the equity holders of the Company of RMB720,604,000 and had a net operating cash outflow of RMB232,945,000 for the year ended 31 December 2017. As at the same date, the Group's current liabilities exceeded its current assets by RMB379,679,000, and the Group suffered an accumulated loss of RMB1,909,166,000. Furthermore, bank borrowings totalled RMB131,289,000 were due for repayment within the next twelve months as described in Note 22, while its cash and cash equivalents amounted to RMB56,496,000 only as at the same date. In view of these conditions the Group has undertaken a number of measures to improve its liquidity and insolvency:

(i) From January to March 2018, the Group successfully raised RMB200 million new funds through issuance of new shares of the Company to several individuals;

(ii) Between the period of January 2018 and January 2019, the Group obtained new borrowings totalled approximately RMB441 million from certain third parties and related parties for a period of two years, which will be due for repayment in 2020;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Going Concern Basis *(continued)*

(iii) Up to the date of approval of these consolidated financial statements, the Group has repaid bank borrowings of RMB93,289,000, while the remaining bank borrowings amounted to RMB30 million and RMB8 million have been renewed for one year with scheduled repayment dates in August 2019 and October 2019 respectively;

(iv) In January 2019, the Group secured a financial support arrangement from 重慶聖商信息科技有限公司 ("重慶聖商"), the parent company of the single largest shareholder of the Company, under which 重慶聖商 has undertaken that it would provide working capital loans for a maximum amount of RMB200 million to the Group as and when necessary to meet its working capital and other needs for a period of 24 months from the date of approval of these consolidated financial statements.

Management has prepared a cashflow projection of the Group that covered a twelve months period from the date of approval of these consolidated financial statements, taking into account of the reasonably possible adjustments to the scope and size of its business operations, which shows that the Group should be able to operate within the level of funding currently expected to be available to the Group. The Board of Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence in the next twelve months from the date of approval of these consolidated financial statements. The Group therefore continues to adopt the going concern basis in preparing these consolidated financial statements.

2.1.2 Investigation

On 23 March 2018, the Board of Directors of the Company was informed by its auditor that management was not able to provide reasonable explanations and sufficient supporting information to ascertain the large prepayments made to certain suppliers (see Note 15(a)(i)), including the collectability of such prepayments. In response to these concerns raised by its auditor, the Board of Directors of the Company established an Independent Investigation Committee to commission an independent investigation ("Investigation") involving a third party consultant to investigate into the relevant matters. Subsequently, at the request of The Stock Exchange of Hong Kong Limited and the auditor of the Company, the scope of Investigation was extended to cover other major suppliers of the Group and several other matters. As at the date of approval of these consolidated financial statements, the Investigation has been completed.

During the course of preparation of these consolidated financial statements as at 31 December 2017 and for the year then ended, the directors of the Company have taken into account the following findings arising from the Investigation, together with the limitations thereof:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 Investigation *(continued)*

1. Prepayments to suppliers

a) The Board of Directors noted from the Investigation that (i) certain current/former employees of Yangzhou Huiyin Technology Group Co. Ltd. ("Yangzhou Huiyin", an operating subsidiary of the Group) were shareholders of Yangzhou Suohai Electronics Co. Ltd. and Jiangsu Zhipu Electronics Appliance Co. Ltd. ("Suohai" and "Zhipu" respectively, which were television set suppliers of Yangzhou Huiyin) during their course of employment with Yangzhou Huiyin; (ii) the operating address of Suohai was the same as that of a private investment company wholly owned by the former chairman and former chief executive officer of the Group; and (iii) the operating address of Zhipu was the same as that of a subsidiary the Group.

The Board of Directors also noted that the Investigation was subject to certain restrictions including, but not limited to, inability of the external consultant to have access to certain former senior management personnel and other former employees and therefore was not able to verify certain documents or their explanations. The Investigation therefore could not draw a conclusion on the relationship of these suppliers, if any, with the Group and the substance of these transactions. Despite the existence of these indicators and the unusually large amount of these prepayments (see Note 15(a)(i)), the Board of Directors considered that there was insufficient evidence available for them to conclude that (i) Suohai and Zhipu were parties related to or controlled by the Group; and (ii) the relevant balances did not represent prepayments to these suppliers made in the ordinary course of the Group's business.

b) One employee of an operating subsidiary of the Group had a 10% shareholding of Nanjing Mei Zanying Electronics Sales Co. Ltd ("Mei Zanying"), from which the Group sourced air conditioner products since 2008. Despite the existence of this relationship and the unreconciled prepayment balance with Mei Zanying (see Note 15(a)(ii)), the Board of Directors considered that there was insufficient evidence available for them to conclude that (i) Mei Zanying was a party related to or controlled by the Group; and (ii) the relevant balances did not represent prepayments to this supplier made in the ordinary course of the Group's business.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 Investigation *(continued)*

2. Sevice transactions

(a) *Unrecorded service fee under a financial consulting service agreement*

A financial consulting service agreement dated 29 December 2016 was entered into between the Group and a British Virgin Islands incorporated company, Lucky Express Holdings Limited ("Lucky Express"). This agreement was signed by the former chief executive officer on behalf of the Group. In accordance with the financial consulting service agreement, Lucky Express was engaged for a period of one year from the date of the agreement to provide financial consulting service in connection with the disposal of the real estate business of the Group. The consulting service fee stated in the agreement was approximately RMB3.69 million. However, while this financial consulting service agreement was dated 29 December 2016, the Group had entered into an equity transfer agreement for disposal of the real estate business on 14 December 2016 and the equity transfer for the sale of the real estate business had been completed on 25 December 2016.

As management was not able to contact Lucky Express or locate other supporting documents to substantiate the transaction and no payment has been made to or requested by Lucky Express up to now, management decided not to recognize such financial consulting service fee of RMB3.69 million in its 2016 or 2017 consolidated financial statements.

(b) *Payment for a consulting service agreement*

As described in Note 29(a), the Group made an upfront payment of RMB1.5 million in 2017 to an individual who was engaged to provide consulting services in relation to certain fund raising activities of the Group in accordance with a consulting service agreement entered into between the Group and the individual in July 2017 with a total contract amount of RMB3 million. Such upfront payment of RMB1.5 million was recorded as general and administrative expense in 2017. The remaining RMB1.5 million was not paid nor accrued by the Group as management believed the fund raising activities were not successfully executed and the remaining amount under this consulting service agreement will not be paid in the future as the Group has no obligation to do so.

According to the findings of the Investigation, the Group could not provide related communication records between the Group and the individual to support the occurrence of this consulting service rendered by the individual. Under the circumstances especially given that the amount of RMB1.5 million has been paid, the Board of Directors considered that the above mentioned accounting treatment represented a pragmatic way to record the payment made pursuant to the consulting service agreement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.3 Changes in accounting policy and disclosures

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

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

(i) New amendments and interpretation of HKFRSs mandatory for the financial year beginning on 1 January 2017 that are relevant to the Group's operations:

- Amendment to HKAS 12 on the recognition of deferred tax assets for unrealised losses. The amendment clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- Amendments to HKAS 7 on statement of cash flows. The amendment introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

- Amendment to HKFRS 12 on disclosure of interest in other entities. The amendment is part of the annual improvements to HKFRSs 2014-2016 cycle. It clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of HKFRS 12). Previously, it was unclear whether all other HKFRS 12 requirements were applicable for these interests.

The adoption of the above new standards and amendments did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2017.

The amendments to HKAS 7 require disclosures of changes in liabilities arising from financial activities, see Note 36.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

(ii) Certain new standards and amendments of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2017 and have not been early adopted by the Group.

		Effective for annual period beginning on or after	Note
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	
HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018	
HKFRS 9	Financial instruments	1 January 2018	i)
HKFRS 15	Revenue from Contracts with Customers	1 January 2018	ii)
Annual Improvements	Annual Improvements to HKFRSs 2014-2016 Cycle	1 January 2018	
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	
HKFRS 16	Leases	1 January 2019	iii)
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019	

The Group's assessment of the impact of these new standards and interpretation is set out below.

i) HKFRS 9, Financial Instruments

Nature of change

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instruments that are classified as available-for-sale financial assets;
- Debt instruments classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

(ii) Certain new standards and amendments of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2017 and have not been early adopted by the Group. *(continued)*

i) HKFRS 9, Financial Instruments (continued)

Impact (continued)

The Group has reviewed its financial assets and liabilities and expects that HKFRS 9 has no material impact on the Group's accounting for financial liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to-date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group has applied the new rules from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 are not restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

(ii) Certain new standards and amendments of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2017 and have not been early adopted by the Group. *(continued)*

ii) HKFRS 15, Revenue from Contracts with Customers

Nature of change

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

When applying HKFRS 15, revenue shall be recognised by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognise revenue when (or as) the entity satisfies a performance obligation.

The Group is mainly engaged in sales of household appliances and import merchandises, and provision of maintenance and installation services for household appliances. The Group has not introduced any customer loyalty programme which is likely to be affected by the new HKFRS 15.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.
- presentation of contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract liabilities in the balance sheet. This will result in some reclassifications as at 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line items.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

(ii) Certain new standards and amendments of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2017 and have not been early adopted by the Group. *(continued)*

ii) HKFRS 15, Revenue from Contracts with Customers (continued)

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group would adopt the new standard from 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption (if any) is recognised in retained earnings as at 1 January 2018 and that comparatives are not restated. As the nature of the Group's business is to deliver consumer products to various customers, management estimates no material financial impact as a result of the implementation of the new HKFRS 15.

iii) HKFRS 16, Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2017, the Group had non-cancellable operating lease commitments of RMB309,415,000 as disclosed in Note 37. Out of this balance, an amount of RMB309,396,000 represents operating leases with original lease terms of over one year in which the Group will recognise right-to-use assets and corresponding lease liabilities unless they are exempt from the reporting obligations under HKFRS 16. The Group is in the process of assessing the detail impacts on the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

(ii) Certain new standards and amendments of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2017 and have not been early adopted by the Group. *(continued)*

iii) HKFRS 16, Leases (continued)

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations *(continued)*

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

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

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

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

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates

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

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

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

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

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

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

2.4 Joint arrangement

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Joint ventures are accounted for using the equity method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Joint arrangement *(continued)*

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.7 Land use rights for own use

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Property, plant and equipment

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

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

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

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

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

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

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

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

2.9 Investment properties

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Intangible assets

(a) Computer software

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

(b) Non-compete agreements

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

2.11 Impairment of investments in subsidiaries, joint ventures, associates and non-financial assets

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

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

2.12 Inventories – merchandise held for resale and low value consumables

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

Cost of merchandise, representing its purchase cost, is determined by using the first-in-first-out basis for household appliance merchandise. The Group changed the inventory costing method for import merchandise from weighted-average basis to the first-in-first-out basis during the year ended 31 December 2017. The impact on the cost of sales of the year ended 31 December 2017 and the inventory balance as at 31 December 2017 was assessed to be immaterial. Supplier rebates are accrued as earned and are recorded initially as a reduction in inventories and subsequently reflected as a reduction in cost of sales when the related merchandise is sold. The supplier rebates are assessed by taking into consideration of the estimated recoverability based on the historical rebates settlement record and the future purchase plan of the Group from these suppliers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Trade, bills and other receivables

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

2.14 Cash and cash equivalents

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

2.15 Share capital

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

2.16 Trade, bills and other payables

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

2.17 Borrowings and borrowing costs

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Contingent consideration

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

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

2.19 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Outside basis differences

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

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

Offsetting

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

2.20 Employee benefits – pension obligations (defined contribution plan)

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Share-based payments

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

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

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

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

2.22 Provision and contingent liability

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Provision and contingent liability *(continued)*

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

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

2.23 Revenue recognition

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

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

(a) Sales of goods – bulk distribution

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

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

(b) Sales of goods – retail

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

(c) Sales of goods – online sales

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Revenue recognition *(continued)*

(d) Rendering of services

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

(e) Interest income

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

(f) Promotion income

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

(g) Rental income

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

(h) Membership fee income

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

(i) Dividend income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Government grants

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

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

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

2.25 Operating leases (as a lessee)

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

2.26 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk

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

Fluctuation of the exchange rates of functional currency against foreign currencies could affect the Group's result of operations. During the year, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risk which mainly arise from US$ bank borrowings with a total amount of US$2,600,000, bonds payable with a total amount of HK$10,000,000 as at 31 December 2017 (2016: bank borrowings of US$7,600,000, bonds payable of HK$10,000,000). The Group does not have a foreign currency hedging policy. However, the directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting appropriate foreign currency hedging policy in the future.

As at 31 December 2017, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, loss for the year of the Group would have been RMB849,000 lower/higher (2016: post-tax loss would have been RMB2,636,000 lower/higher), mainly as a result of net foreign exchange gains/losses on translation of US$ denominated bank borrowings; if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, loss for the year of the Group would have been RMB418,000 lower/higher (2016: loss for the year would have been RMB447,000 lower/higher), mainly as a result of net foreign exchange gains/losses on translation of HK$ denominated bonds payable and convertible bonds.

(b) Cash flow and fair value interest rate risk

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

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates of RMB16,989,000 (2016: RMB52,721,000) expose the Group to cash flow interest rate risk, and such borrowings are denominated in the US$. As at 31 December 2017, if interest rate on such borrowings had been 10 basis points higher/lower with all other variables held constant, the loss for the year of the Group would have been RMB17,000 higher/lower (2016: loss for the year would have been RMB40,000 higher/lower) mainly as a result of higher/lower interest expense on borrowings with variable rates. Borrowings obtained at fixed rates of RMB114,300,000 (2016: RMB252,363,000) exposed the Group to fair value interest-rate risk. The Group did not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 22.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk

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

(i) Deposits with banks

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

		As at 31 December	
	Rating (Note)	**2017 RMB'000**	2016 RMB'000
Five largest restricted bank deposits			
– Shanghai Pudong Development Bank	A-2	**82,400**	167,326
– China Minsheng Bank	A-3	**40,400**	86,273
– China Guangfa Bank	N/A	**38,000**	48,000
– Bank of China	A-1	**36,500**	61,470
– Bank of Communications	A-2	**30,000**	81,750
		227,300	444,819
Five largest cash and cash equivalents			
– China Minsheng Bank	A-3	**15,127**	63,609
– China Merchants Bank	A-2	**9,875**	20,041
– Industrial and Commercial Bank	A-1	**8,804**	18,697
– Bank of China	A-1	**7,404**	15,161
– Agriculture bank of China	A-1	**6,053**	10,602
		47,263	128,110

Note:

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(ii) Receivables

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

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

Supplier rebate receivables are due from suppliers upon achievement of specified volume purchasing levels. Management assesses the credit risk of suppliers by taking into account of their financial position and past collection experience.

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(d) Liquidity risk

Management of the Group aims to maintain sufficient cash through internally generated sales proceeds and external sources of funds through committed credit facilities from commercial banks or short-term borrowings from shareholders of the Company, related parties and third parties to meet the operation needs. Actions taken by management of the Group to meet immediate liquidity needs are also described in Note 2.1.1.

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

	Within 3 months RMB'000	Between 3 to 6 months RMB'000	Between 6 to 12 months RMB'000	Between 1 to 2 years RMB'000	Over 2 years RMB'000
As at 31 December 2017					
Borrowings (Note 22)	**42,790**	**54,000**	**34,500**	**–**	**8,359**
Interest payments on borrowings (Note)	**2,425**	**1,822**	**1,306**	**473**	**1,589**
Trade and bills payables (Note 20)	**420,862**	**262,870**	**–**	**–**	**–**
Accruals and other payables, excluding advances from customers, value added tax and other tax payables and salary and welfare payables (Note 21)	**63,737**	**75,000**	**64,200**	**–**	**–**
	529,814	**393,692**	**100,006**	**473**	**9,948**
As at 31 December 2016					
Borrowings (Note 22)	69,186	25,000	210,898	–	8,945
Interest payments on borrowings (Note)	3,362	2,828	3,323	400	1,754
Trade and bills payables (Note 20)	649,242	201,610	–	–	–
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 21)	211,673	7,500	–	–	–
	933,463	236,938	214,221	400	10,699

Note:

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2017 and 2016 without taking into account of future borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

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

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

3.3 Fair value estimation

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

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

As at 31 December 2017, the Group does not have any derivative or other financial instruments which were measured at fair value.

3.4 Group's valuation processes

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

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

As at 31 December 2017 and 2016, the fair values of all financial assets and liabilities measured at amortised cost approximate their carrying amounts.

3.6 Offsetting of financial assets and liabilities

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(i) Accruals of supplier rebates receivable

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

(ii) Provision for supplier rebates receivable

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

Provision for impairment of supplier rebates receivable is made if necessary, taking into consideration of the credit quality and financial position of the suppliers. During the year, accrual of provision of RMB17,412,000 (2016: RMB269,929,000) for impairment on supplier rebates receivable had been recognised in 'administrative expenses' (Note 15).

(b) Net realisable value of inventories

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

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

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

The Group had impairment charge of RMB45,019,000 (2016: Nil) in total arose during the year ended 31 December 2017 for land use rights (Note 6), property, plant and equipment (Note 7) and intangible assets (Note 9).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

All the Group's investment properties are accounted for using the cost model. For disclosure purpose, the Group determines the fair value of its investment properties as at each balance sheet date based on a valuation performed by the management of the Group. The valuation is based on a discounted cash flow projection which involves making estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5 SEGMENT INFORMATION

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

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

During the year, the Group made adjustment to its business strategies, resources allocation and internal reporting to adapt to the market conditions. The directors determined to re-organise the principal operations of the Group into two main operating segments:

- Traditional business, including the results from sales of household appliances.
- New retail business, including the results from sales of import merchandise and general merchandise.

All other segments included the results from rendering maintenance and installation services, real estate business from January 2016 to October 2016 with the acquisition and disposal of a subsidiary.

Comparative figures by segment for the year ended 31 December 2016 were also restated accordingly.

5 SEGMENT INFORMATION *(continued)*

The segment results for the year ended 31 December 2017 are as follows:

Segment results	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	1,154,900	203,527	13,349	–	1,371,776
Intra-segment revenue	(24,340)	–	–	–	(24,340)
Revenue from external customers	1,130,560	203,527	13,349	–	1,347,436
Operating (loss)/profit	(626,374)	(66,914)	(8,374)	24,896	(676,766)
Finance costs - net					(28,874)
Share of loss of a joint venture					(27,500)
Share of loss of an associate					(122)
Loss before income tax					(733,262)
Income tax expense					(2,910)
Loss for the year					(736,172)
Other segment items are as follows:					
Capital expenditure	3,247	8,923	–	27,500	39,670
Depreciation charge	17,941	2,121	633	31	20,726
Amortisation charge	2,577	1,063	19	–	3,659
Impairment charge	39,764	5,255	–	–	45,019

5 SEGMENT INFORMATION *(continued)*

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

Segment results	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	1,209,011	184,711	10,047	–	1,403,769
Inter-segment revenue	(19,740)	–	–	–	(19,740)
Revenue from external customers	1,189,271	184,711	10,047	–	1,384,029
Operating (loss)/profit	(420,054)	(88,453)	356	(150,335)	(658,486)
Finance costs - net					(42,315)
Share of loss of a joint venture					(1,148)
Share of loss of an associate					(211)
Loss before income tax					(702,160)
Income tax expense					(28,026)
Loss for the year					(730,186)
Other segment items are as follows:					
Capital expenditure	7,267	5,960	–	17,200	30,427
Depreciation charge	20,903	2,325	367	–	23,595
Amortisation charge	2,531	105	–	–	2,636

Unallocated mainly represented the expenses incurred by the Group, such as Option Scheme expenses, reversal of impairment for prepayment to an oversea supplier, certain key management compensation and exchange gains/(losses) arising from the bank deposits denominated in foreign currencies.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

5 SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2017 are as follows:

Segment assets and liabilities	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Group RMB'000
Segment assets	648,069	72,621	11,327	732,017
Unallocated assets				283,458
Total assets				1,015,475
Segment liabilities	878,073	63,067	10,459	951,599
Unallocated liabilities				233,414
Total liabilities				1,185,013

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

Segment assets and liabilities	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Group RMB'000
Segment assets	1,029,321	152,183	5,343	1,186,847
Unallocated assets				708,973
Total assets				1,895,820
Segment liabilities	651,194	350,720	1,983	1,003,897
Unallocated liabilities				555,173
Total liabilities				1,559,070

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

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

6 LAND USE RIGHTS

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

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Opening net book amount	**45,857**	46,965
Amortisation (Note 29)	**(1,199)**	(1,108)
Disposal	**(5,515)**	–
Impairment (Note 29)	**(11,403)**	–
Closing net book amount	**27,740**	45,857
Cost	**45,489**	51,539
Accumulated depreciation	**(6,346)**	(5,682)
Accumulated impairment	**(11,403)**	–
Closing net book amount	**27,740**	45,857

All of the Group's land use rights are located in Mainland China and are held on leases between 40 to 50 years.

(a) Amortisation of land use rights

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

(b) Disposal of land use rights

In October 2017, the Group entered into an agreement with the Management Committee of Jiangsu Yangzhou Hanjiang Economic Development Zone (the "Hanjiang Management Committee") to sell the land use rights of the Group to Hanjiang Management Committee at a consideration of RMB5,329,000, resulting in a loss on disposal of RMB186,000.

(c) Impairment of land use rights

As at 31 December 2017, impairment charge of RMB11,403,000 and RMB5,237,000 (Note 7) had been provided for the land use rights and its associated buildings respectively as their carrying values exceed their recoverable amounts calculated based on the valuation applying income approach.

(d) Pledge of land use rights

As at 31 December 2017, land use rights with a net book amount of RMB27,740,000 (31 December 2016: RMB15,488,000) together with certain buildings (Note 7) and investment properties (Note 8) had been pledged as collateral for the Group's bank borrowings of RMB97,600,000 (31 December 2016: RMB97,600,000) (Note 22).

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronics and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2015						
Cost	218,758	28,426	12,790	66,132	–	326,106
Accumulated depreciation	(38,349)	(11,911)	(8,480)	(28,632)	–	(87,372)
Net book amount	180,409	16,515	4,310	37,500	–	238,734
Year ended 31 December 2016						
Opening net book amount	180,409	16,515	4,310	37,500	–	238,734
Additions	–	5,481	154	–	5,992	11,627
Disposals	–	(613)	(345)	–	–	(958)
Transfer upon completion of construction	–	–	–	5,992	(5,992)	–
Acquisition of a subsidiary	–	213	–	–	–	213
Disposal of a subsidiary	–	(454)	–	–	–	(454)
Depreciation (Note 29)	(6,036)	(2,193)	(1,817)	(13,379)	–	(23,425)
Net book amount	174,373	18,949	2,302	30,113	–	225,737
At 31 December 2016						
Cost	**218,758**	**32,103**	**11,880**	**72,124**	**–**	**334,865**
Accumulated depreciation	**(44,385)**	**(13,154)**	**(9,578)**	**(42,011)**	**–**	**(109,128)**
Net book amount	**174,373**	**18,949**	**2,302**	**30,113**	**–**	**225,737**
Year ended 31 December 2017						
Opening net book amount	**174,373**	**18,949**	**2,302**	**30,113**	**–**	**225,737**
Additions	**–**	**2,974**	**2,213**	**1,577**	**–**	**6,764**
Disposals	**–**	**(96)**	**(111)**	**–**	**–**	**(207)**
Depreciation (Note 29)	**(7,329)**	**(3,514)**	**(1,147)**	**(8,566)**	**–**	**(20,556)**
Impairment (Note 29)	**(5,237)**	**–**	**–**	**(23,124)**	**–**	**(28,361)**
Net book amount	**161,807**	**18,313**	**3,257**	**–**	**–**	**183,377**
At 31 December 2017						
Cost	**218,758**	**34,811**	**13,578**	**39,772**	**–**	**306,919**
Accumulated depreciation	**(51,714)**	**(16,498)**	**(10,321)**	**(16,648)**	**–**	**(95,181)**
Accumulated impairment	**(5,237)**	**–**	**–**	**(23,124)**	**–**	**(28,361)**
Net book amount	**161,807**	**18,313**	**3,257**	**–**	**–**	**183,377**

7 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) Depreciation of property, plant and equipment

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

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Selling and marketing expenses	**11,268**	15,552
Administrative expenses	**9,288**	7,873
	20,556	23,425

(b) Disposal of property, plant and equipment

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

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Net book amount disposed of	**207**	958
Loss on disposal of property, plant and equipment (Note 28), net	**(49)**	(142)
Proceeds from disposal of property, plant and equipment	**158**	816

(c) Impairment of property, plant and equipment

As at 31 December 2017, impairment charges of RMB11,403,000 (Note 6) and RMB5,237,000 had been provided for the land use rights and associated buildings, respectively.

As at 31 December 2017, an impairment charge of RMB23,124,000 had been provided for the leasehold improvements as the carrying amounts of these assets are not expected to be recoverable in the future.

(d) Pledge of property, plant and equipment

As at 31 December 2017, buildings with a net book amount of RMB161,807,000 (2016: RMB144,385,000) together with certain land use rights (Note 6) and investment properties (Note 9) had been pledged as collateral for the Group's bank borrowings of RMB97,600,000 (2016: RMB97,600,000).

8 INVESTMENT PROPERTIES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**5,405**	5,575
Depreciation (Note 29)	**(170)**	(170)
Closing net book amount	**5,235**	5,405
Cost	**7,146**	7,146
Accumulated depreciation	**(1,911)**	(1,741)
Closing net book amount	**5,235**	5,405

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

(a) Depreciation of the investment property

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

(b) Accounting model of the investment property

The Group chooses the cost model to account for its investment properties and therefore the difference between the fair value and carrying amount of the investment properties and any changes in fair value are not accounted for in these financial statements. The carrying amount of the investment properties would have been RMB5,580,000 had they been stated at fair values as of 31 December 2017 (31 December 2016: RMB6,029,000). The fair values of the investment properties as at 31 December 2017 and 2016 were based on a review performed by the management of the Group, which were determined by discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question. The fair value measurement falls under level 3 of the fair value hierarchy.

(c) Pledge of the investment property

As at 31 December 2017, investment properties with a net book amount of RMB5,235,000 (31 December 2016: RMB5,405,000) together with certain land use rights (Note 6) and buildings (Note 7) had been pledged as collateral for the Group's bank borrowings of RMB54,000,000 (31 December 2016: 54,000,000) (Note 22).

9 INTANGIBLE ASSETS

	Non-compete agreements RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2016			
Cost	4,970	8,637	13,607
Accumulated amortisation	(4,748)	(5,187)	(9,935)
Impairment	–	–	–
Net book amount	222	3,450	3,672
Year ended 31 December 2016			
Opening net book amount	222	3,450	3,672
Additions	–	1,600	1,600
Amortisation (Note 29)	(222)	(1,306)	(1,528)
Closing net book amount	–	3,744	3,744
At 31 December 2016			
Cost	4,970	10,237	15,207
Accumulated amortisation	(4,970)	(6,493)	(11,463)
Impairment	–	–	–
Net book amount	–	3,744	3,744
Year ended 31 December 2017			
Opening net book amount	**–**	**3,744**	**3,744**
Additions	**–**	**5,406**	**5,406**
Amortisation (Note 29)	**–**	**(2,460)**	**(2,460)**
Disposal	**–**	**(584)**	**(584)**
Impairment loss (Note 29)	**–**	**(5,255)**	**(5,255)**
Closing net book amount	**–**	**851**	**851**
At 31 December 2017			
Cost	**4,970**	**15,059**	**20,029**
Accumulated amortisation	**(4,970)**	**(8,953)**	**(13,923)**
Accumulated impairment	**–**	**(5,255)**	**(5,255)**
Net book amount	**–**	**851**	**851**

The impairment charge of computer softwares of RMB5,255,000 (2016:nil) was made because these softwares have not been in use resulting from the restructuring of the new retail segment business.

10 INVESTMENT IN JOINT VENTURES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**–**	261,944
Acquisition of joint venture to become a subsidiary	**–**	(261,944)
Capital contribution or loan	**27,500**	–
Share of loss	**(27,500)**	–
Closing net book amount	**–**	–

The Group has the following joint venture as at 31 December 2017:

Name of entity	Place of business/country of incorporation	% of ownership interest	Measurement method
Jiangsu Huisheng Supply Chain Management Co., Ltd.	Nanjing Jiangsu,PRC	55	Equity method

On 22 January 2017, Yangzhou Huiyin Technology Group Co., Ltd (揚州匯銀科技集團有限公司) ("Yangzhou Huiyin"), a wholly owned subsidiary of the Group, together kl. Ltd. (金甲資產管理有限公司) ("Jinjia"), a limited liability company established in the PRC set up Jiangsu Huisheng Supply Chain Management Co., Ltd. (江蘇匯晟供應鏈管理有限公司) ("Huisheng") in the PRC.

Huisheng has a registered capital of RMB50,000,000, of which Yangzhou Huiyin has fully contributed its proportional share of capital of RMB27,500,000 in cash during the year ended 31 December 2017. The principal activities of Huisheng is supply chain management services.

During the period from 22 January 2017 to 31 December 2017, Huisheng recorded a net loss of approximately RMB60,738,000 and the Group recognised a share of net loss of Huisheng of RMB27,500,000 which reduced its investment to zero. After making inquiries of the Group's legal consultant, management of the Group considers that there are no material contingent liabilities relating to the Group's interest in Huisheng which should be recognised as at 31 December 2017.

11 INVESTMENT IN ASSOCIATES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**934**	1,181
Capital contribution	**–**	–
Unrealized downstream profit eliminated	**–**	(36)
Share of loss	**(122)**	(211)
Impairment charge	**(812)**	–
Closing net book amount	**–**	934

The Group has the following associated companies:

(i) Investment in Taixing Shengshi Huazhang Electronics Sales. Co., Ltd.

On 29 September 2014, Yangzhou Shengshi Xinxing Electronics Sales Co., Ltd (揚州盛世欣興電器銷售有限公司) ("Yangzhou Shengshi"), an indirectly owned subsidiary of the Company, together with 3 third- party individuals set up Taixing Huazhang Shengshi Huazhang Electronics Sales Co., Ltd. (泰興市盛世華章電器銷售有限公司) ("Huazhang") in Taixin, Jiangsu Province, the PRC.

Huazhang has a registered capital of RMB5,000,000 of which Yangzhou Shengshi contributed RMB750,000 in cash, and the principal activities of Huazhang was trading of household appliances. The Group recognised its share of Huazhang's net loss for the year ended 31 December 2017. As Huazhang's business operations had become inactive since September 2017, management of the Group assessed that the likelihood for the recoverability of the Group's investment is remote and therefore the Group further recognised an impairment charge of RMB812,000 to fully provide for its investment exposure in Huazhang. There are no material contingent liabilities relating to the Group's interest in Huazhang which should be recognised as at 31 December 2017.

(ii) Investment in Nanjing Ruihu Electronic Commercial Technology Co., Ltd.

On 5 December 2016, Yangzhou Huiyin together with a third- party company set up Nanjing Ruihu Electronic Commercial Technology Co., Ltd. (南京瑞虎電子商務科技有限公司)("Ruihu") in Nanjing, Jiangsu Province, the PRC.

Ruihu has registered capital of RMB200,000,000 of which Yangzhou Huiyin has agreed to subscribe for 49% of the equity interest. The Group has not contributed any capital into Ruihu as at 31 December 2017. The investment commitments relating to the Group's interest in associate are presented in Note 37(b).

As Ruihu recorded a net loss of RMB2,000 for the year ended 31 December 2017, the Group's share of Ruihu's result for the year was immaterial.

12 DEFERRED INCOME TAX

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	–	6,096
– to be recovered after more than 12 months	–	5,390
	–	11,486
Deferred income tax liabilities:		
– to be settled within 12 months	–	211
– to be settled after more than 12 months	–	–
	–	211

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**11,275**	169,577
Recognised in the consolidated income statement (Note 33)	**(11,275)**	(158,209)
Acquisition of a subsidiary (Note10)	–	17,317
Disposal of a subsidiary (Note10)	–	(17,410)
At end of the year	–	11,275

12 DEFERRED INCOME TAX *(continued)*

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

	Tax losses RMB'000	Accrued volume discounts to distributors RMB'000	Accrued expenses RMB'000	Unrealised profits elimination RMB'000	Provisions RMB'000	Total RMB'000
At 1 January 2016	31,171	2,591	1,127	3,719	131,180	169,788
Acqusition of a subsidiary	17,317	–	–	–	–	17,317
Disposal of a subsidiary	(17,410)	–	–	–	–	(17,410)
Others	(31,171)	(2,591)	(1,127)	(3,719)	(131,180)	(169,788)
Recognised in the consolidated income statement	5,483	–	3,196	2,862	38	11,579
At 31 December 2016	5,390	–	3,196	2,862	38	11,486
At 1 January 2017	**5,390**	**–**	**3,196**	**2,862**	**38**	**11,486**
Recognised in the consolidated income statement	**(5,390)**	**–**	**(3,196)**	**(2,862)**	**(38)**	**(11,486)**
At 31 December 2017	**–**	**–**	**–**	**–**	**–**	**–**

	Withholding tax on unremitted earnings of PRC subsidiaries RMB'000
At 31 December 2016 and 31 December 2017	–

Deferred income tax assets are recognised for deductible temporary differences and tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2017, the Group did not recognise deferred income tax assets of RMB312,781,000 (31 December 2016: RMB277,018,000) in respect of losses amounting to RMB1,301,610,000 (31 December 2016: RMB1,108,072,000) that can be carried forward to set off against future taxable income due to uncertainty in realisation. Losses amounting to RMB122,277,000, RMB170,283,000,RMB345,262,000, RMB414,819,000,and RMB248,969,000 (31 December 2016: RMB27,146,000, RMB124,854,000,RMB175,348,000, RMB350,324,000,and RMB430,907,000) expire in 2018, 2019, 2020, 2021 and 2022 respectively.

13 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Merchandise held for resale	**279,932**	230,540
Provision for obsolescence	**(22,231)**	(2,123)
	257,701	228,417
Low value consumables	**276**	130
Total	**257,977**	228,547

The analysis of the amount of inventories recognised as an expense and included in the income statement is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Included in cost of sales		
– Carrying amount of merchandise sold	**1,293,677**	1,325,264
– Accrual/(reversal) of provision for obsolete inventories (Note 29)	**20,108**	(6,530)
	1,313,785	1,318,734

During the year, merchandise held for sale of RMB15,000,000 which was pledged in 2016 as collateral for the Group's bank borrowings of RMB15,000,000 (Note 22) had been released.

14 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables	**38,151**	66,637
Less: Provision for impairment	**(14,253)**	(3,253)
Trade receivables, net	**23,898**	63,384
Bills receivable	**15,944**	5,140
Trade and bills receivables, net	**39,842**	68,524

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

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
0 – 30 days	**16,877**	23,619
31 – 90 days	**3,776**	34,675
91 – 365 days	**3,245**	3,433
1 year – 2 years	**12,332**	1,619
2 years – 3 years	**1,059**	2,442
Over 3 years	**862**	849
Total	**38,151**	66,637

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

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

14 TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2017, trade receivables of RMB14,253,000 (31 December 2016: RMB3,253,000) were past due, impaired and provided for. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
less than 1 year	**–**	–
1 year – 2 years	**12,332**	56
2 years – 3 years	**1,059**	2,351
Over 3 years	**862**	846
Total	**14,253**	3,253

As at 31 December 2017, trade receivables of Nil (2016: RMB1,657,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
31 – 90 days	**–**	–
91 – 365 days	**–**	–
1 year – 2 years	**–**	1,563
2 years – 3 years	**–**	91
Over 3 years	**–**	3
Total	**–**	1,657

14 TRADE AND BILLS RECEIVABLES *(continued)*

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**3,253**	6,778
Accrual of provision for receivable impairment (Note 29)	**11,000**	(3,525)
At end of the year	**14,253**	3,253

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

As at 31 December 2017, bills receivable with an amount of RMB13,000,000 (31 December 2016: Nil) had been pledged as collateral for the Group's bank borrowings of RMB11,700,000 (31 December 2016: Nil) (Note 22).

As at 31 December 2017 and 31 December 2016, no bills receivable were discounted to the bank with recourse.

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Prepayments to suppliers, net of provision (note (a))	**98,564**	318,810
Rebate receivable from suppliers, net of provision (note (b))	**–**	97,403
Prepaid rentals	**8,805**	15,678
Deposits	**7,876**	6,101
Other prepayments	**3**	93
Other receivables from third parties, net of provision		
– Value added tax recoverable	**41,070**	27,376
– Amount due from a third party for disposal of a subsidiary	**2,000**	20,000
– Interests receivable from banks	**886**	2,246
– Amount paid on behalf of certain suppliers	**2,482**	2,825
– Staff advances	**1,750**	1,752
– Others (note (c))	**2,171**	7,472
	165,607	499,756

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Note:

(a) Prepayments to suppliers, net of provision

Prepayments to suppliers, include the following items:

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Gross amounts		
Yangzhou Suohai Electronics Co. Ltd ("Suohai") (i)	**225,887**	62,163
Jiangsu Zhipu Household Appliance Co. Ltd ("Zhipu") (i)	**161,476**	75,525
Nanjing Mei Zanying Electronic Sales Co. Ltd ("Mei Zanying") (ii)	**63,215**	84,947
Others (iii)	**64,113**	136,918
Subtotal	**514,691**	359,553
Provision		
Suohai, Zhipu and Mei Zanying (i)	**(415,360)**	–
Others (iii)	**(767)**	(40,743)
	98,564	318,810

(i) Suohai and Zhipu were television set suppliers of the Group. During the year ended 31 December 2017, the Group made total prepayments of RMB677,298,000 and RMB336,120,000 respectively to these two suppliers. The Group made purchases of RMB121,389,000 and RMB44,224,000 from Suohai and Zhipu respectively, and received refunds of prepayment of RMB442,525,000 and RMB191,959,000 from Suohai and Zhipu during the same year. The Group had prepayment balances with these two television set suppliers of RMB225,887,000 and RMB161,476,000 respectively as at 31 December 2017.

In January 2018, management became aware that these two suppliers were in financial difficulties. The Group has therefore ceased conducting any new business with them since then. In July 2018, the Group reached an agreement with Zhipu under which Zhipu transferred a commercial property to the Group to settle part of the outstanding prepayment of approximately RMB20,740,000. In September 2018, the Group initiated legal proceedings against Suohai and Zhipu with a view to collecting the outstanding prepayments. As the trials for the Suohai and Zhipu cases have not been commenced at the date of approval of these consolidated financial statements, management considered that it is premature to make an assessment on the recoverability of the prepayments from Suohai and Zhipu through the litigations. Meanwhile, the Group decided to set aside an impairment provision of RMB225,857,000 and RMB140,736,000, after netting off the value of the property transferred from Zhipu as disclosed above, to cover the Group's exposure to the prepayment balances with Suohai and Zhipu respectively as at 31 December 2017.

(ii) The Group had a prepayment balance of RMB63,215,000 with a large air-conditioner supplier, Mei Zanying as at 31 December 2017. Subsequent to 31 December 2017, the Group received a supplier confirmation from Mei Zanying, and noted the balance acknowledged by Mei Zanying was RMB14,478,000, which was different from that reflected in the Group's accounting records as described above. Although management is still approaching Mei Zanying for a reconciliation and checking the documents supporting its recorded prepayment balance, management made an impairment provision of RMB48,737,000 to cover the Group's exposure to the prepayment balance with Mei Zanying as at 31 December 2017.

(iii) The impairment provision of RMB40,743,000 for prepayment made to a supplier in 2016 had been reversed in 2017 as the prepayment was fully recovered in the current year. A provision of RMB767,000 was made to cover the exposure arising from a supplier as at 31 December 2017.

(b) During the year, a provision of RMB17,412,000 (2016: RMB269,929,000) (Note 29) for impairment of rebate receivables from supplier had been recognised, taking into account of the quality and financial position of the suppliers. During the year, a provision of RMB109,213,00 (2016: nil) for impairment of rebate receivables had been written off due to the voluntary liquidation of a subsidiary. As at 31 December 2017, the balance of provision for rebate receivables from suppliers was RMB830,345,000 (2016: RMB922,146,000)

(c) During the year, a provision for impairment of RMB2,910,000 on receivable from a third party was reversed as the Group reached an agreement with the third party to offset the receivable against an advance from the same third party.

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

16 RESTRICTED BANK DEPOSITS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Restricted bank deposits	**278,350**	646,712

As at 31 December 2017, restricted bank deposits of RMB257,960,000 (31 December 2016: RMB529,999,000) had been pledged as collateral for the Group's bank acceptance bills of RMB485,950,000 (31 December 2016: RMB728,710,000) (Note 20).

As at 31 December 2017, restricted bank deposits of RMB20,390,000 (31 December 2016: RMB55,963,000) had been pledged as collateral for the Group's bank borrowings of US$2,600,000 (31 December 2016: US$7,600,000, equivalent to RMB52,721,000) (Note 22).

All restricted bank deposits are denominated in RMB. As at 31 December 2017, the weighted average interest rate on restricted bank deposits was 2.17% per annum (31 December 2016: 2.2% per annum).

17 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash on hand		
– denominated in RMB	**220**	763
Cash at bank		
– denominated in RMB	**55,781**	156,676
– denominated in HK$	**220**	420
– denominated in US$	**275**	1,259
	56,276	158,355
	56,496	159,118

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

	As at 31 December	
	2017	2016
RMB	**0.35%**	0.35%
HK$	**0.001%**	0.001%
US$	**0.001%**	0.001%

18 SHARE CAPITAL

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

	Par value	Number of ordinary shares	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2016, 31 December 2016 and 1 January 2017	US$0.001	2,000,000,000	2,000,000	10,598
Additions	US$0.001	2,000,000,000	2,000,000	13,549
At 31 December 2017	US$0.001	4,000,000,000	4,000,000	24,147
Issued and fully paid:				
At 1 January 2016	US$0.001	1,456,860,017	1,456,860	9,708
Issue of new shares (b)	US$0.001	262,000,000	262,000	1,754
At 31 December 2016	US$0.001	1,718,860,017	1,718,860	11,462
Issued and fully paid:				
At 1 January 2017	US$0.001	1,718,860,017	1,718,860	11,462
Issue of new shares (a)	US$0.001	339,100,000	339,100	2,277
At 31 December 2017	US$0.001	2,057,960,017	2,057,960	13,739

Notes:

(a) On 4 August 2017, an aggregate of 339,100,000 ordinary shares of the Company had been successfully issued at the price of HK$0.81 per share. The gross proceeds amounted to approximately HK$274,371,000 (equivalent to RMB235,599,000).

(b) On 30 June 2016, an aggregate of 262,100,000 ordinary shares of the Company had been successfully issued at the price of HK$0.80 per share. The gross proceeds amounted to approximately HK$209,600,000 (equivalent to RMB180,885,000).

(c) Share Option Schemes

The share option schemes currently applicable are as follows:

(i) Share option scheme on 14 May 2015

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

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

18 SHARE CAPITAL *(continued)*

Notes: *(continued)*

(c) Share Option Schemes *(continued)*

(i) Share option scheme on 14 May 2015 *(continued)*

The significant inputs to the model are summarised as below:

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

During the year ended 31 December 2017, no share option was exercised and 22,500,000 shares were forfeited (2016: no share option was exercised or forfeited). As at 31 December 2017, 69,500,000 shares were outstanding and exercisable. (31 December 2016: 92,000,000 shares were outstanding and exercisable). These options will be expired on 13 May 2020.

(ii) Share option scheme on 22 December 2015

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

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

The significant inputs to the model are summarised as below:

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

During the year ended 31 December 2017, no share option was exercised and 14,600,000 share options were forfeited (2016: no share option was exercised and 6,000,000 shares were forfeited). As at 31 Decmeber 2017, 125,080,000 share options were outsdanding and exercisable (31 December 2016: 139,680,000 share options were outsdanding and exercisable). These options will be expired on 21 December 2025.

19 RESERVES

	Share premium RMB'000 note (a)	Statutory reserves RMB'000 note (b)	Other reserves RMB'000	Accumulated loss RMB'000	Total RMB'000
Balance at 1 January 2016	1,201,278	28,007	(14,274)	(460,253)	754,758
Loss for the year 2016	–	–	–	(722,752)	(722,752)
Place of ordinary shares to financing (Note 18)	179,131	–	–	–	179,131
Capital contribution from non-controlling interests	–	–	52,440	(5,557)	46,883
Issuance of share option scheme (Note 18)	–	–	44,832	–	44,832
Balance at 31 December 2016	1,380,409	28,007	82,998	(1,188,562)	302,852
Loss for the year 2017	–	–	–	(720,604)	(720,604)
Issue of ordinary shares (Note 18)	233,322	–	–	–	233,322
Transaction with non-controlling interest holders for additional interest in subsidiaries	–	–	(27,396)	–	(27,396)
Return of capital and payment of dividend agreed to a non-controlling interest holder in liquidation of a subsidiary (Note 25(c))	–	–	(207)	–	(207)
Balance at 31 December 2017	1,613,731	28,007	55,395	(1,909,166)	(212,033)

Notes:

(a) Share premium

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

(b) Statutory reserves

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

20 TRADE AND BILLS PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables	**197,782**	122,142
Bills payable	**485,950**	728,710
	683,732	850,852

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

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
0 – 30 days	**133,211**	93,457
31 – 90 days	**22,259**	10,147
91 – 365 days	**38,667**	13,449
1 year – 2 years	**2,459**	2,675
2 years –3 years	**253**	1,493
Over 3 years	**933**	921
	197,782	122,142

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

As at 31 December 2017, restricted bank deposits of RMB257,960,000 (2016: RMB529,999,000) (Note 16) had been pledged as collateral for the Group's bank acceptance bills of RMB485,950,000 (2016: RMB728,710,000).

21 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Advances from customers	**70,507**	76,251
Salary and welfare payables	**30,311**	30,300
Accrued expenses	**6,335**	22,727
Payables for purchase of equipment	**6,794**	9,896
Deposits	**2,408**	2,399
Value added tax and other tax payables	**4,041**	323
Interest payables	**849**	1,211
Guarantee deposit for subscription of ordinary shares of the Company (note (a))	**2,930**	80,258
Advances from third parties, interest bearing (note (b))	**114,200**	66,200
Advances from equity investor of an associate and accrued penalty (note (c))	**28,150**	–
Advance from a former director, interest bearing (note (d))	**25,000**	–
Advance from a third party, interest free (note (e))	**–**	23,000
Consideration payable to a former non-controlling interest holder of a subsidiary (Note 25(c))	**2,000**	–
Advance from Huisheng, a joint venture	**2,500**	–
Payable to a former joint venture partner (note (f))	**–**	6,800
Others	**12,620**	6,682
Total	**308,645**	326,047

Note:

(a) As at 31 December 2017, guarantee deposit for subscription of ordinary shares of the Company amounting to RMB2,930,000 (31 December 2016: RMB80,258,000) represents the deposit the Group received from a shareholder for the subscription of the ordinary shares of the Company (Note 18).

(b) Advances from third parties include the followings:

(i) As at 31 December 2017, the Group has interest bearing advances from two third party individuals of RMB50,000,000 (31 December 2016: Nil). In accordance with the agreements entered into between the Group and the two individuals, these advances are unsecured, interest bearing at 5% per annum and repayable in April 2018. The Group repaid these advances in April 2018.

(ii) As at 31 December 2017, the Group had borrowing of RMB54,000,000 from several third party beneficiaries of Nanjing Yangzi Huiyin Lehu Service and Trade Industry Fund Limited Partnership, a subsidiary of the Group. The borrowing was unsecured, interest bearing at 6.5% per annum and repayable in September 2018. The Group repaid the borrowings in September 2018.

(ii) As at 31 December 2017, the Group has interest bearing advances from 24 individuals totalling RMB10,200,000 (31 December 2016: Nil), with an interest rate of 8% per annum and for a period of 12 months from their respective agreement dates. These advances were repaid in October and November 2018.

The advances from third parties of RMB66,200,000 as at 31 December 2016 have been repaid during the year ended 31 December 2017.

21 ACCRUALS AND OTHER PAYABLES *(continued)*

Note: *(continued)*

(c) During the year, the Group obtained short-term advances totaling RMB100,000,000 from Jiangsu Ruihua Investment Holding Group Co., Ltd. ("江蘇瑞華投資控股集團有限公司"), ("Ruihua") at 10% interest per annum for a period of one month. These advances were jointly and severally guaranteed by Mr. Cao Kuanping, Jiangsu Huiyin Lehu Commercial Chain-Stores Co., Ltd., Yangzhou Huiyin and the Company. During the year, the Group made repayments of RMB85,000,000 to settle the principal of RMB72,200,000 together with RMB833,000 of interest charge and the overdue penalty charge of RMB11,967,000 up to the repayment date. The outstanding balance represents the unsettled principal amount of RMB27,800,000 and the accrued overdue penalty charge of RMB350,000 as at 31 December 2017.

(d) On 29 December 2017, the Group obtained an advance of RMB25,000,000 (31 December 2016: Nil) from Mr. Cao Kuanping, a former director of the Group. The advance was unsecured, interest bearing at 4.6% per annum and repayable in April 2018. The Group had repaid the advance in April 2018.

(e) During the year ended 31 December 2017, the advance was fully settled through netting off a RMB8,239,000 receivable with this third party and a cash repayment of RMB14,761,000.

(f) The payable to a former joint venture partner was settled during the year ended 31 December 2017.

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

22 BORROWINGS

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Non-current		
Bonds payables (a)	**7,062**	7,358
Current		
Bank borrowings (b)	**131,289**	305,084
	138,351	312,442

(a) Bonds payables

In 2015, the Company placed 4 bonds at a total nominal value of HK$10,000,000 to certain third party individuals. These bonds are unsecured, interest bearing at 6% per annum and with a term of 8 years. These bonds were initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

22 BORROWINGS *(continued)*

(b) Bank borrowings

As at 31 December 2017, the Group's bank borrowings were repayable as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**131,289**	305,084

As at 31 December 2017, land use rights (Note 6), buildings (Note 7) and investment properties (Note 8) with a total net book amount of RMB194,782,000 (31 December 2016: RMB165,278,000) had been pledged as collateral for the Group's bank borrowings of RMB97,600,000 (31 December 2016: RMB97,600,000).

As at 31 December 2017, restricted bank deposits of RMB20,390,000 (31 December 2016: RMB55,963,000) (Note 16) had been pledged as collateral for the Group's bank borrowings of US$2,600,000, equivalent to RMB16,989,000 (31 December 2016: US$7,600,000, equivalent to RMB52,721,000).

As at 31 December 2017, bank borrowings amounting to RMB11,700,000 were guaranteed by bill receivable with a total amount of RMB13,000,000.

As at 31 December 2017, bank borrowings amounting to RMB5,000,000 were guaranteed by Jiangsu Huiyin Electronics Commerce Co., Ltd., (江蘇匯銀電子商務有限公司) ("Jiangsu Electronics Commerce"), an indirectly held subsidiary of the Group, and Mr. Cao Kuanping, a former director of the Group.

Other bank borrowing balances as at 31 December 2016 amounting to RMB154,763,000 had been repaid during the year ended 31 December 2017.

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
6 months or less	**96,789**	67,263
6-12 months	**34,500**	237,821
	131,289	305,084

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

22 BORROWINGS *(continued)*

(b) Bank borrowings *(continued)*

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current		
– RMB	**114,300**	252,363
– US dollar	**16,989**	52,721
	131,289	305,084

As at 31 December 2017, the Group's bank borrowings with the carrying amounts of RMB16,989,000 (31 December 2016: RMB52,721,000) are of floating rates and bank borrowings with the carrying amounts of RMB114,300,000 (31 December 2016: RMB252,363,000) are of fixed rates.

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

	As at 31 December	
	2017	2016
Current	**4.88%**	4.48%

23 DEFERRED GOVERNMENT GRANTS

The government grants were made by the Management Committee of Jiangsu Yangzhou Hanjiang Economic Development Zone in respect of the Group's storage and logistics development project in prior years.

The Group's storage and logistics development project had been terminated during the year after its related land use rights were sold (Note 6(b)). As the Group had no unfulfilled obligations relating to the storage and logistics development project, the deferred government grants were fully recognised as other income during the year.

24 OTHER LIABILITIES

	RMB'000
As at 31 December 2017 and 2016	53,560

The other liabilities arising from the contingent consideration arrangements represented payable to the former owner of acquired subsidiary in 2010, Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd ("Anhui Four Seas"). The contingent period has passed and the estimated consideration was at RMB53,560,000. The consideration payables are still subject to final negotiation with the former owner, which might be further adjusted when agreed.

25 PARTICULARS OF SUBSIDIARIES

(a) List of subsidiaries

As at 31 December 2017, the Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation	Legal status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2017	2016	Principal activities	Note
Directly owned								
China Yinrui (HK) Investment Holding Company Limited	Hong Kong 14 March 2008	Limited liability company	HK$1	HK$1	100%	100%	Investment	
Fuhua Investment Holding Co., Ltd	BVI 28 August 2004	Limited liability company	US$1	US$1	100%	100%	Investment	
Indirectly owned								
Yangzhou Huiyin 揚州滙銀科技集團有限公司 (formerly known as "揚州滙銀家電(集团)有限公司")	Yangzhou Jiangsu, PRC 27 May 2002	Foreign investment enterprise	US$200,000,000	US$196,427,968	100%	100%	Bulk distribution sales and provision of after-sales services of household appliances	
Jiangsu Huiyin Lehu Commercial Chain-Stores Co., Ltd. (formerly known as "Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.") 江蘇匯銀樂虎商業連鎖有限公司 (formerly known as "江蘇滙銀電器連鎖有限公司")	Yangzhou Jiangsu, PRC 15 May 2006	Domestic enterprise	RMB62,500,000	RMB62,500,000	100%	100%	Retail sales and provision of after-sales services of household appliances	
Changzhou Keyi Air-Conditioner Sales Co., Ltd. ("Changzhou Keyi") 常州可意空調銷售有限公司	Changzhou Jiangsu, PRC 26 August 2003	Domestic enterprise	RMB5,000,000	–	–	90%	Bulk distribution sales of Gree air-conditioners	(i)
Yangzhou Huihou Electronics Sales Co., Ltd. 揚州滙厚電器銷售有限公司	Yangzhou Jiangsu, PRC 23 August 2004	Domestic enterprise	RMB50,000,000	–	–	100%	Bulk distribution sales of household appliances	(i)
Yangzhou Hengjin Air-conditioner Sales Co., Ltd. 揚州恒金空調銷售有限公司	Yangzhou Jiangsu, PRC 27 August 2004	Domestic enterprise	RMB50,000,000	RMB50,000,000	100%	100%	Bulk distribution sales of Daikin air conditioners	
Yangzhou Huide Electronics Distribution Co., Ltd. 揚州滙德電器營銷有限公司	Yangzhou Jiangsu, PRC 23 October 2006	Domestic enterprise	RMB50,000,000	RMB50,000,000	100%	100%	Bulk distribution sales of Midea air-conditioners	
Yangzhou Huiyin Logistic Co., Ltd 揚州滙銀物流有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	US$5,000,000	US$5,000,000	100%	100%	Bulk distribution sales of Midea air-conditioners	

25 PARTICULARS OF SUBSIDIARIES *(continued)*

(a) List of subsidiaries *(continued)*

Company name	Place and date of incorporation	Legal status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2017	2016	Principal activities	Note
Indirectly owned *(continued)*								
Yangzhou Huiyin Household Appliances Sales Co., Ltd. 揚州滙銀電器銷售有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	US$4,100,000	US$4,100,000	**100%**	100%	Retail sales of household appliances	
Anhui Four Seas 安徽四海匯銀家電銷售有限公司	Huainan Anhui, PRC 16 September 2010	Domestic enterprise	RMB50,000,000	RMB50,000,000	**65%**	65%	Retail sales of household appliances	
Wuxi Huiyin Household Appliances Sales Co., Ltd. 無錫匯銀家電銷售有限公司	Wuxi Jiangsu, PRC 9 December 2010	Domestic enterprise	RMB1,800,000	RMB1,800,000	**100%**	100%	Bulk distribution sales of household appliances	
Nanjing Chaoming 南京潮明科技發展有限公司	Nanjing Jiangsu, PRC 20 June 2002	Domestic enterprise	RMB10,000,000	RMB10,000,000	**100%**	100%	Retail and bulk distribution sales of household appliances	
Jiangsu Huiyin Electronics (Anhui) Co., Ltd. 江蘇匯銀電器(安徽)有限公司	Hefei Anhui, PRC 31 March 2011	Domestic enterprise	RMB2,000,000	RMB2,000,000	**100%**	100%	Bulk distribution sales of household appliances	
Hefei Jingmei Household Appliances Co., Ltd. 合肥精美家電有限公司	Hefei Anhui, PRC 25 May 2011	Domestic enterprise	RMB1,000,000	–	**100%**	–	Bulk distribution sales of household appliances	(i)
Shanghai Jingjiandongkang Trading Co., Ltd. 上海靜健動康貿易有限公司	Shanghai, PRC 24 October 2012	Domestic enterprise	RMB2,000,000	RMB2,000,000	**100%**	100%	Trading of food and other merchandise	
Yangzhou Shengshi Xinxing Electronics Sales Co., Ltd. 揚州盛世欣興電器銷售有限公司	Yangzhou, Jiangsu, PRC 21 August 2013	Domestic enterprise	RMB10,000,000	RMB10,000,000	**100%**	80%	Bulk distribution sales of household appliances	
Shanghai Guanghan Trading Co., Ltd. 上海廣邗貿易有限公司	Shanghai, PRC 12 February 2014	Foreign Investment Enterprise	RMB500,000	–	**100%**	100%	Bulk distribution sales of general merchandise	
Jiangsu Jingjian Dongkang Trading Co., Ltd. 江蘇靜健動康貿易有限公司	Yangzhou, Jiangsu, PRC 11 March, 2014	Domestic Enterprise	RMB10,000,000	RMB360,000	**100%**	100%	Bulk distribution sales of foods	
Shanghai Huicai Financial Information Service Co., Ltd. 上海匯彩互聯網金融信息服務有限公司	Shanghai, PRC 22 October, 2014	Domestic Enterprise	RMB3,000,000	–	**–**	100%	Internet Financial information service	(i)

25 PARTICULARS OF SUBSIDIARIES *(continued)*

(a) List of subsidiaries *(continued)*

Company name	Place and date of incorporation	Legal status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2017	2016	Principal activities	Note
Indirectly owned *(Continued)*								
Jiangsu Kuanrui Trade Logistics Development Co., Ltd. 江蘇寬瑞物流貿易發展有限公司	Yangzhou, Jiangsu, PRC 30 January 2008	Foreign Investment Enterprise	EUR2,000,000	EUR2,000,000	**100%**	100%	Logistic and warehouse services	
Yangzhou Huiyin Warehouse Management Co., Ltd 揚州滙银倉儲管理有限公司	Yangzhou Jiangsu, PRC 11 July 2016	Foreign Investment Enterprise	HKD78,500,000	HKD78,500,000	**100%**	100%	Logistic and warehouse services	
Jiangsu Huiyin Electronics Commerce Co., Ltd. 江蘇匯銀電子商務有限公司	Yangzhou Jiangsu, PRC 13 June 2012	Domestic enterprise	RMB17,333,300	RMB11,733,333	**75%**	75%	Sales of household appliances and other merchandise	(iii)
Yangzhou Yinlinghui Recreation Center for Aged 揚州銀齡匯老年服務中心	Yangzhou Jiangsu, PRC 27 April 2015	Domestic Enterprise	RMB100,000	RMB100,000	**75%**	75%	Community Services	(iii)
Nanjing Lehu Electronic Commerce Co., Ltd 南京匯銀樂虎電子商務有限公司	Nanjing Jiangsu, PRC 01 October 2015	Domestic Enterprise	RMB30,000,000	RMB30,000,000	**75%**	75%	Retail sales of import merchandise	(iii)
Ningbo Bonded area Lehu Electronic Commerce Co., Ltd 寧波保税區樂虎電子商務有限公司	Ningbo Zhejiang, PRC 30 October 2015	Domestic Enterprise	RMB10,000,000	RMB37,223	**75%**	75%	Retail sales of import merchandise	(iii)
Nanjing Activity Center for Aged 南京老年活動中心	Nanjing Jiangsu, PRC 1 February 2016	Domestic Enterprise	RMB50,000	RMB50,000	**75%**	75%	Community Services	(iii)
Nantong Lehu Electronic Commerce Co., Ltd 南通樂虎電子商務有限公司	Nantong Jiangsu, PRC 30 March 2016	Domestic Enterprise	RMB10,000,000	RMB10,000,000	**75%**	75%	Retail sales of import merchandise	(iii)
Yangzhou Huiyin Lehu Electronic Commerce Co., Ltd 揚州匯銀樂虎電子商務有限公司	Yangzhou Jiangsu, PRC 22 June 2016	Domestic Enterprise	RMB10,000,000	RMB6,000,000	**75%**	75%	Retail sales of import merchandise	(iii)
Nanjing Huiyin Lehu Cold-Chain Logistics Co., Ltd 南京匯銀樂虎冷鏈物流有限公司	Nanjing Jiangsu, PRC 10 April 2016	Domestic Enterprise	RMB1,000,000	RMB1,000	**75%**	75%	Logistics and Warehouse management Service	(iii)

25 PARTICULARS OF SUBSIDIARIES *(continued)*

(a) List of subsidiaries *(continued)*

Company name	Place and date of incorporation	Legal status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2017	2016	Principal activities	Note
Indirectly owned *(Continued)*								
Nanjing Huixi Information Technology Development Co., Ltd 南京匯溪信息科技發展有限公司 (Formerly known as Nanjing Huihu Information and Technology Development Co., Ltd' 南京匯虎信息科技發展有限公司)	Nanjing Jiangsu, PRC 7 April 2016	Domestic Enterprise	RMB10,000,000	RMB1,000	**75%**	75%	Information technology development and consulting services	(iii)
Nanjing Huiyin Lehu Enterprise Management Co., Ltd 南京匯銀樂虎企業管理有限公司	Nanjing Jiangsu, PRC 10 April 2016	Domestic Enterprise	RMB10,000,000	RMB1000	**75%**	75%	Business Management Advisory Service	(iii)
Nanjing Huiyin Lehu Communication & Media Co., Ltd ("Nanjing Lehu") 南京匯銀樂虎文化傳媒有限公司	Nanjing Jiangsu, PRC 10 April 2016	Domestic Enterprise	RMB10,000,000	RMB82,000	**75%**	75%	Marketing Campaigns and Advertising Services	(iii)
Hefei Huiyin Lehu Electronic Commerce Co., Ltd 合肥匯銀樂虎電子商務有限公司	Hefei Anhui, PRC 30 June 2016	Domestic Enterprise	RMB10,000,000	RMB6,498,407	**75%**	75%	Retail sales of import merchandise	(iii)
Taizhou Huiyin Dadu Lehu Electronic Commerce Co., Ltd 泰州匯銀大都樂虎電子商務有限公司	Taizhou Anhui, PRC 3 August 2016	Domestic Enterprise	RMB20,000,000	RMB8,000,000	**75%**	38%	Retail sales of import merchandise	(iii)
Changzhou Huiyin Lehu Network Technology Co., Ltd 常州匯銀樂虎網絡科技有限公司	Changzhou Jiangsu, PRC 28 November 2016	Domestic Enterprise	RMB10,000,000	RMB8,912,297	**75%**	75%	Retail sales of import merchandise	(iii)
Suzhou Huiyin Lehu Electronic Commerce Co., Ltd 蘇州匯銀樂虎電子商務有限公司	Suzhou Jiangsu, PRC 15 November 2016	Domestic Enterprise	RMB10,000,000	RMB7,015,266	**75%**	75%	Retail sales of import merchandise	(iii)
Shanghai Huihu Enterprise Management Co., Ltd ("Shanghai Huihu") 上海匯虎企業管理有限公司	Shanghai, PRC 17 August 2017	Domestic Enterprise	RMB8,200,000	RMB2,000,000	**38%**	–	Retail sales of import merchandise	(iii) (iv)
Shangshu Huihu Electronic Commerce Co., Ltd ("Changshu Huihu") 常熟匯虎電子商務有限公司	Changshu Jiangsu, PRC 8 March 2017	Domestic Enterprise	RMB8,000,000	–	**38%**	–	Retail sales of import merchandise	(iii) (iv)
Yangzhou Huiyin Lehu Yeheng Electronic Commerce Co., Ltd 揚州匯銀樂虎業恒電子商務有限公司	Yangzhou Jiangsu, PRC 16 May 2017	Domestic Enterprise	RMB10,000,000	–	**75%**	–	Retail sales of import merchandise	(iii)

25 PARTICULARS OF SUBSIDIARIES *(continued)*

(a) List of subsidiaries *(continued)*

Company name	Place and date of incorporation	Legal status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2017	2016	Principal activities	Note
Indirectly owned *(Continued)*								
Kunshan Huiyin Lehu Electronic Commerce Co., Ltd 昆山匯銀樂虎電子商務有限公司	Kunshan Jiangsu, PRC 16 August 2017	Domestic Enterprise	RMB10,000,000	RMB302,815	**75%**	–	Retail sales of import merchandise	(iii)
Yangzhou Huiyin Lehu Automobile Service Co., Ltd 揚州匯銀樂虎汽車服務有限公司	Yangzhou Jiangsu, PRC 8 May 2017	Domestic Enterprise	RMB1,000,000	RMB50,000	**75%**	–	Automobile maintenance service	(iii)
Shanghai Haihu Electronic Commerce Co., Ltd 上海海虎電子商務有限公司	Shanghai, PRC 17 November 2016	Domestic Enterprise	RMB50,000,000	–	**80%**	80%	Retail sales of import merchandise	
Nanjing Huiyin Lehu Logistic Management Co., Ltd 南京匯銀樂虎供應鏈管理有限公司	Nanjing Jiangsu, PRC 12 July 2017	Domestic Enterprise	RMB30,000,000	–	**82%**	–	Logistic and Warehouse Service	
Nanjing Haihuitong Supply Chain Services Co., Ltd. 南京海匯通供應鏈服務有限公司	Nanjing Jiangsu, PRC 12 December 2016	Domestic enterprise	RMB300,000,000	–	**15%**	–	Logistic and Warehouse Service	(ii)

Notes:

(i) Changzhou Keyi, Yangzhou Huihou Electronics Sales Co., Ltd (揚州滙厚電器銷售有限公司), Hefei Jingmei Household Appliances Co., Ltd. (合肥精美家電有限公司) and Shanghai Huicai Financial Information Service Co., Ltd. (上海匯彩互聯網金融信息服務有限公司 were liquidated during the year ended 31 December 2017.

(ii) On 12 December 2016, Yangzhou Huiyin, together with Yangzhou Yinhua Investment Consultation Co., Ltd. (揚州銀華企業投資諮詢有限公司, a company wholly owned by Mr. Cao Kuanping, former director of the Company), Nanjing Jingjiandongkang Trading Co., Ltd. (南京靜健動康貿易有限公司) and Yangzhou Maikensu Investment Partnership (揚州麥肯蘇投資合夥企業, a company owned by certain employees of the Group), set up Nanjing Haihuitong Supply Chain Services Co., Ltd. (南京海匯通供應鏈服務有限公司) ("Haihuitong"). Haihuitong is economically dependent on the Group due to the facts that (i) the Group was its primary customer and 99% of the sales of Haihuitong in 2017 were made to the Group; (ii) it relied on the Group to provide funding for its operations as all the registered shareholders had not yet contributed any capital to Haihuitong as at 31 December 2017; and (iii) the core management team members of Haihuitong were employees of the Group and (iv) 4 out of 7 members of the Board of Directors of Haihuitong were also employees of the Group. Therefore, Haihuitong is regarded as a subsidiary of the Group and its assets, liabilities and the results had been consolidated in the financial statements of the Group.

(iii) Although Yangzhou Maikensu has been registered as 15% shareholder of Jiangsu Electronics Commerce, it has not contributed its proportional share of registered capital. The Board of the Directors is of the view that the net assets of any Jiangsu Electronics Commerce and its subsidiaries as at 31 December 2017 and the net loss for the year then ended would not be shared with Yangzhou Maikensu, and accordingly, no non-controlling interest as at 31 December 2017 and loss attributable to non-controlling interest were recorded for Yangzhou Maikensu, respectively.

(iv) During the year 2017, Nanjing Lehu, the Group's subsidiary together with a third party company Shanghai Baojue Investment Management Co., Ltd (上海寶珏投資管理有限公司), ("Shanghai Baojue") set up Shanghai Huihu. As Nanjing Lehu owns 51% equity interest of Shanghai Huihu and Changshu Huihu is a 100% owned subsidiary of Shanghai Huihu. Therefore, the effective interest of the Group in Shanghai Ruihu and Changshu Ruihu as at 31 December 2017 is 38%.

25 PARTICULARS OF SUBSIDIARIES *(continued)*

(b) Non-controlling interests

Set out below is summarised consolidated financial information for Anhui Fourseas and Jiangsu Electronics Commerce which have non-controlling interests that are material to the Group.

Consolidated balance sheet	Anhui Four Seas As at 31 December		Jiangsu Electronics Commerce As at 31 December	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Current assets	**134,834**	135,903	**225,792**	375,302
Current liabilities	**64,728**	67,480	**206,704**	270,268
Current net assets	**70,106**	68,423	**19,088**	105,034
Non-current assets	**724**	534	**8,369**	22,481
Non-current liabilities	**–**	–	**–**	–
Non-current net assets	**724**	534	**8,369**	22,481
Net assets	**70,830**	68,957	**27,457**	127,515
Accumulated NCI	**24,791**	24,135	**3,184**	12,851

Consolidated statement of comprehensive income	Anhui Four Seas Year ended 31 December		Jiangsu Electronics Commerce Year ended 31 December	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Revenue	**210,215**	175,873	**580,797**	724,435
(Loss)/profit for the year 2017	**1,873**	(2,000)	**(96,588)**	10,838
Other comprehensive income	**–**	–	**–**	–
Total comprehensive (loss)/ income	**1,873**	(2,000)	**(96,588)**	10,838
(Loss)/profit allocated to NCI	**656**	(700)	**(9,659)**	1,084
Dividends paid to NCI	**–**	–	**–**	–

25 PARTICULARS OF SUBSIDIARIES *(continued)*

(b) Non-controlling interests *(continued)*

Consolidated cash flows	Anhui Four Seas Year ended 31 December		Jiangsu Electronics Commerce Year ended 31 December	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Cash flows from operating activities	**(4,470)**	1,738	**23,033**	(44,058)
Cash flows from investing activities	**443**	761	**(5,944)**	(4,908)
Cash flows from financing activities	**–**	–	**(79,677)**	112,860
Net increase/(decrease) in cash and cash equivalents	**(4,027)**	2,499	**(62,588)**	63,894

(c) Transactions with non-controlling interests

(i) In May 2017, the Group acquired an additional 20% of the issued shares of Yangzhou Shengshi Xinxing Electronics Sales Co., Ltd. ("Yangzhou Shengshi") at a consideration of RMB2,000,000. The Group derecognised the non-controlling interest in Yangzhou Shengshi, resulting in a decrease of RMB27,309,000 in other reserve of the Group.

(ii) In May 2017, Changzhou Keyi was voluntarily liquidated. In connection with this, a total amount of RMB2,296,000 which comprises a return of 10% paid-up capital and a cash dividend of RMB1,257,000 was paid to the non-controlling interest holder. The Group derecognised the non-controlling interest of RMB2,089,000, resulting in a decrease of RMB207,000 in other reserve of the Group.

(iii) In November 2017, the Group acquired an additional 20% of the issued shares of Taizhou Huiyin Dadu Lehu Electronic Commerce Co., Ltd ("Taizhou Dadu") at a consideration of RMB3,420,000. The Group derecognised the non-controlling interest of RMB3,333,000, resulting in a decrease of RMB87,000 in other reserve of the Group.

26 REVENUE

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Sales of goods		
– Traditional business	**1,130,560**	1,189,271
– New retail business	**203,527**	184,711
	1,334,087	1,373,982
Rendering of services		
– Maintenance and installation service	**13,349**	10,047
Total revenue	**1,347,436**	1,384,029

27 OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Income from suppliers on promotion activities	**10,910**	10,993
Rental income	**3,771**	3,685
Membership fee income	**11,481**	2,807
Government subsidies (Note 23)	**9,939**	2,736
	36,101	20,221

Note:

All of the government subsidies for the years ended 31 December 2017 and 2016 represent amounts received during the respective years related to the Group's operating activities and are not subject to any conditions nor intended to compensate future costs.

28 OTHER LOSSES – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment, net	**(49)**	(142)
Losses on disposal of intangible assets, net	**(584)**	–
Losses on disposal of land use rights	**(186)**	–
Gain arose from acquisition of a subsidiary	**–**	3,301
Losses arose from revaluation of investment in and loan to a joint venture	**–**	(3,633)
Loss on disposal of a subsidiary	**–**	(90,202)
Penalty charge for late repayment of borrowing from a third party (Note 12)	**(12,315)**	–
	(13,134)	(90,676)

29 EXPENSES BY NATURE

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of merchandise before deducting supplier rebates	**1,405,709**	1,548,848
Supplier rebates	**(112,032)**	(223,584)
Taxes and levies on main operations	**1,991**	2,615
Employee benefit expenses (excluding share option scheme expenses) (Note 30)	**90,574**	88,999
Share Option Scheme expenses (Note 18) (Note 30)	**–**	44,832
Service charges	**3,911**	7,483
Operating lease expenses in respect of buildings and warehouses	**37,373**	40,944
Renovation, promotion and advertising expenses	**47,415**	57,730
Amortisation of land use rights (Note 6)	**1,199**	1,108
Depreciation of property, plant and equipment (Note 7)	**20,556**	23,425
Depreciation of investment properties (Note 8)	**170**	170
Amortisation of intangible assets (Note 9)	**2,460**	1,528
Utilities and telephone expenses	**13,341**	10,463
Transportation expenses	**11,535**	15,706
Entertainment expenses	**5,882**	4,794
Travelling expenses	**3,700**	4,350
Office expenses	**11,397**	4,695
Accrual/(reversal) of provision for obsolescence on inventories (Note 13)	**20,108**	(6,530)
Accrual/(reversal) of provision for impairment of trade receivables (Note 14)	**11,000**	(3,525)
(Reversal)/accrual of provision for impairment on other receivables (Note 15)	**(2,910)**	8,525
Accrual of provision for impairment of property, plant, and equipments (Note 7)	**28,361**	–
Accrual of provision for impairment of land use rights (Note 6)	**11,403**	–
Accrual of provision for impairment of intangible assets (Note 9)	**5,255**	–
Accrual of provision for impairment of prepayment to Suohai, Zhipu and Mei Zanying (Note 15(a(i),(ii))	**415,360**	–
(Reversal)/accrual of provision for impairment of prepayment to other suppliers (Note 15(a(iii))	**(39,976)**	40,743
Accrual of provision for rebate receivable from suppliers (Note 15(b))	**17,412**	269,929
Accrual of provision for investment in an associate	**812**	–
Property tax and other taxes	**2,495**	2,384
Auditor's remuneration	**9,329**	3,565
Bank charges	**4,932**	6,946
Consulting expenses (note (a))	**1,744**	5,104
Others	**16,663**	10,813
Total of cost of sales, selling and marketing expenses and administrative expenses	**2,047,169**	1,972,060

29 EXPENSES BY NATURE *(continued)*

Note:

(a) The Group made an upfront payment of RMB1.5 million in 2017 to an individual who was engaged to provide consulting services in relation to the fund raising activities of the Group in accordance with a consulting service agreement entered into between the Group and the individual with a total contract amount of RMB3 million. Such upfront payment of RMB1.5 million was recorded as general and administrative expense in 2017.

30 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries and other allowances	**75,073**	69,612
Social security costs	**14,841**	18,709
Share Option Scheme expenses	**–**	44,832
Other benefits	**660**	678
	90,574	133,831

(a) The employees of the subsidiaries of the Group in the PRC participated in defined contribution retirement benefit plans organised by the relevant local governments. For the year ended 31 December 2017, these subsidiaries were required to make monthly defined contributions to these plans at rates ranging from 29.0% to 39.0% of their total salaries subject to certain ceilings (2016: 27.4% to 32.3%).

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

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two (2016: two) directors whose emoluments were reflected in the analysis presented above. The emoluments paid/payable to the remaining three (2016: three) individual were as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries and other allowances	**2,243**	1,011
Bonuses	**–**	–
Share Option Scheme expenses	**30**	98
Social security costs	**–**	63
	2,273	1,172

The emoluments of the remaining three (2016: three) highest paid individuals of the Group fall within the following bands:

	Year ended 31 December	
	2017	2016
Emoluments bands		
– Nil to HK$1,000,000	**2**	3
– HK$1,000,001 to HK$1,500,000	**1**	–
	3	3

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

(a) Directors' and chief executive's emoluments

For the years ended 31 December 2017 and 2016, the remuneration of directors of the Company paid/payable by the Group were as follows:

Name of directors	For the year ended 31 December 2017					
	Salaries and other allowances RMB'000	Bonuses RMB'000	Social security costs RMB'000	Share Option Scheme expenses RMB'000	Other benefits RMB'000	Total RMB'000
Chairman and executive director						
– Mr. Yuan Li (note (a))	–	–	–	–	–	–
Other executive directors						
– Mr. Wang Zhijin (note (b))	827	–	103	–	–	930
– Mr. Mao Shanxin (note (c))	234	–	37	–	–	271
– Mr. Mo Chihe (note (d))	283	–	37	–	–	320
– Mr. Lu Chaolin (note (e))	230	–	24	–	–	254
– Mr. Xu Xinying (note (f))	–	–	–	–	–	–
– Ms. Liu Simei (note (g))	300	–	–	–	–	300
– Mr. Cao Kuanping (note (h))	1,827	–	37	–	–	1,864
Independent non-executive directors						
– Mr. Tam Chun Chung (note (p))	87	–	–	–	–	87
– Mr. Zhou Shuiwen (note (i))	87	–	–	–	–	87
– Mr. Lo Kwong Shun Wilson (note (k))	29			29		
– Mr. Li Michael Hankin (note (j))						
– Mr. Zhao Jinyong (note (l))	29	–	–	–	–	29
Non-executive directors						
– Mr. Song Liwu (note (m))	–	–	–	–	–	–
– Mr. Wang Cai (note (n))	–	–	–	–	–	–
– Mr. Sheng Xingpeng (note (o))	–	–	–	–	–	–
	3,933	–	238	–	–	4,171

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

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

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

Notes:

(a) Mr. Yuan Li was appointed as executive director of Group on 26 August 2017.
(b) Mr. Wang Zhijin resigned from the board of directors on 29 December 2017.
(c) Mr. Mao Shanxin resigned from the board of directors on 1 June 2017.
(d) Mr. Mo Chihe resigned from the board of directors on 29 December 2017.
(e) Mr. Lu Chaolin resigned from the board of directors on 26 August 2017.
(f) Mr. Xu Xinying was appointed as non-executive director on 26 August 2017, and re-designated as executive director on 29 December 2017.
(g) Ms. Liu Simei was appointed as executive director on 29 December 2017.
(h) Mr. Cao Kuanping resigned as chairman of the board of directors on 29 December 2017, and resigned as a director of the Group on 9 September 2018.
(i) Mr. Zhou Shuiwen resigned as independent non-executive director on 29 December 2017.
(j) Mr. Li Michael Hankin was appointed as independent non-executive director on 26 August 2017 and resigned on 30 June 2018.
(k) Mr. Lo Kwong Shun Wilson resigned as independent non-executive director on 26 August 2017.
(l) Mr. Zhao Jinyong was appointed as an independent non-executive director on 29 December 2017.
(m) Mr. Song Liwu was appointed as a non-executive director on 1 June 2017 and resigned on 26 August 2017.
(n) Mr. Wang Cai was appointed as a non-executive director on 1 June 2017.
(o) Mr. Shen Xingpeng was appointed as a non-executive director on 29 December 2017 and resigned on 15 June 2018.
(p) Mr. Tam Chun Chung was resigned as independent non-executive director of the Company on 30 January 2019.

During the years ended 31 December 2017 and 2016, none of the directors of the Company (i) received any emolument from the Group as an inducement to join or upon joining the Group; or (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

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

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2016: Nil).

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

During the year ended 31 December 2017, the Group did not pay consideration to any third parties for making available directors' services (2016: Nil).

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

Except for the arrangements disclosed in Note 25 (a)(ii), as at 31 December 2017, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and connected entities with directors (2016: Nil).

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

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

32 FINANCE COSTS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance income		
– Interest income on bank deposits	**6,061**	10,340
– Interest income on loan to a joint venture	**–**	1,467
	6,061	11,807
Finance costs		
– Interest expenses on discounting of bills receivable	**(13,253)**	(18,264)
– Interest expenses on bank borrowings	**(15,831)**	(21,320)
– Interest expenses on convertible bonds	**–**	(2,546)
– Interest expenses on advance from third parties (Note 21)	**(2,624)**	–
– Interest expenses on bonds payables	**(687)**	(718)
– Fair value gain on convertible bonds	**–**	605
– Net foreign exchange losses on cash and cash equivalents borrowings and bonds payable	**(2,540)**	(11,879)
	(34,935)	(54,122)
Net finance costs – net	**(28,874)**	(42,315)

33 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
PRC enterprise and withholding income taxes		
– Current income tax		
Current tax on profits for the year	**(725)**	(13,349)
Adjustments for current tax of prior periods	**9,090**	143,532
	8,365	130,183
– Deferred income tax		
Decrease in deferred tax assets	**(11,486)**	(158,209)
Decrease in deferred tax liabilities	**211**	–
	(11,275)	(158,209)
	(2,910)	(28,026)

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss before income tax	**(733,262)**	(702,160)
Tax credit calculated at domestic tax rates applicable to losses in the respective regions	**(183,316)**	(158,154)
Tax effects of:		
Expenses not deductible for tax purpose/(income) not taxable	**8,672**	25,276
Tax losses for which no deferred tax assets were recognised	**62,866**	75,578
Deductible temporary differences for which no deferred tax asset was recognised	**116,028**	85,326
Utilisation of previously unrecognised tax losses	**(1,340)**	–
Income tax expenses	**2,910**	28,026

33 INCOME TAX EXPENSE *(continued)*

(a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the year (2016: Nil).

(b) PRC enterprise income tax

Under the Corporate Income Tax Law of the PRC, the enterprise income tax rate applicable to the Group's subsidiaries located in mainland China is 25%.

34 LOSS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Loss attributable to equity holders of the Company (RMB'000)	**(720,604)**	(722,752)
Weighted average number of ordinary shares in issue (thousand)	**1,859,210**	1,597,321
Basic loss per share (RMB cents)	**(38.76)**	(45.25)

34 LOSS PER SHARE *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the settlement in ordinary shares for consideration arising from business combination assuming it was settled by issuance of ordinary shares and exercise of share options granted under the Share Option Schemes.

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Loss attributable to equity holders of the Company (RMB'000)	**(720,604)**	(722,752)
Weighted average number of ordinary shares in issue (thousand)		
Adjustment for:	**1,859,210**	1,597,321
– Settlement in ordinary shares for the contingent consideration arising from business combination (thousand)	**–**	–
– Exercise of the share options granted under the Share Option Schemes (thousand)	**–**	–
Weighted average number of ordinary shares for diluted loss per share (thousand)	**1,859,210**	1,597,321
Diluted loss per share (RMB cents)	**(38.76)**	(45.25)

For the years ended 31 December 2017 and 31 December 2016, the impact of settlement in ordinary shares for the exercise of the share options granted under the Share Option Schemes was anti-dilutive.

35 DIVIDENDS

No interim dividend was declared during the year (2016: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

36 CASH FLOW INFORMATION

(a) Cash generated used in operations

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss before income tax	**(733,262)**	(702,160)
Adjustments for:		
– Net foreign exchange (gains)/losses on cash and cash equivalents and bank borrowings (Note 32)	**(2,655)**	11,879
– Net foreign exchange losses/(gains) on monetary receivables and payables	**5,195**	–
– Amortisation of land use rights (Note 6)	**1,199**	1,108
– Depreciation of property, plant and equipment (Note 7)	**20,556**	23,425
– Depreciation of investment properties (Note 8)	**170**	170
– Amortisation of intangible assets (Note 9)	**2,460**	1,528
– Accrual of provision for property, plant and equipment	**28,361**	–
– Accrual of provision for land use rights	**11,403**	–
– Losses on disposal of property, plant and equipment (Note 28)	**49**	142
– Losses on disposals of intangible assets (Note 28)	**584**	–
– Losses on disposals of land use rights (Note 28)	**186**	–
– Finance income (Note 32)	**(6,061)**	(10,340)
– Default penalty paid on advance to equity investor of an associate	**350**	–
– Interest income from loan to a joint venture (Note 32)	**–**	(1,467)
– Interest expenses and borrowing costs (Note 32)	**32,395**	42,848
– Loss on disposal of a subsidiary (Note 10, Note 28)	**–**	90,202
– Loss arose from revaluation of an investment in and loan to a JV	**–**	3,633
– Gain arose from acquisition of a subsidiary (Note 10, Note 28)	**–**	(3,301)
– Share of loss of investment in a joint venture (Note 10)	**27,500**	1,148
– Share of loss of investment in an associate (Note 11)	**122**	211
– Amortization of deferred government grants	**(2,701)**	(58)
– Fair value gain on convertible bonds (Note 32)	**–**	(605)
– Accrual/(reversal) of provision for obsolescence of inventories (Note 13)	**20,108**	(6,530)
– Accrual/(reversal) of provision for impairment of trade receivables (Note 14)	**11,000**	(3,525)
– (Reversal)/accrual of provision for impairment of other receivables (Note 15)	**(2,910)**	8,525
– Accrual of provision for impairment on intangible assets	**5,255**	–
– Accrual of provision for impairment on investment in an associate	**812**	–
– Accrual of provision for impairment on Suohai, Zhipu and Mei Zanying	**415,361**	–
– (Reversal)/accrual of provision for impairment of prepayment to other suppliers	**(39,976)**	40,743
– Accrual of provision for impairment on rebate receivable	**17,412**	269,929
– Share Option Scheme expenses (Note 18)	**–**	44,832
Operating loss before working capital changes	**(187,087)**	(187,663)
Changes in working capital:		
– Increase in inventories	**(49,758)**	(11,157)
– Decrease in trade and bills receivables	**17,682**	18,617
– (Increase)/decrease in prepayments, deposits and other receivables	**(70,531)**	119,327
– Decrease/(increase) in restricted bank deposits pledged for bank acceptance bills	**272,039**	(43,194)
– Decrease in trade and bills payables	**(167,120)**	(7,513)
– Decrease in accruals and other payables	**(11,081)**	(5,366)
Cash used in operations	**(195,856)**	(116,949)

36 CASH FLOW INFORMATION *(continued)*

(b) Non-cash investing and financing activities

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Disposal of land use rights by receivable offsetting against an advance from a third party (Note 6)	**5,329**	–
Receivable offsetting against an advance from a third party (Note 15)	**2,910**	–
	8,239	–

(c) Net debt reconciliation

The analysis of net debt and the movement of net debt as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents	**56,496**	159,118
Bank borrowings repayable within one year (including overdraft) (Note 22)	**(131,289)**	(305,084)
Bonds repayable after one year	**(7,062)**	(7,358)
Advances from third parties	**(114,200)**	(66,200)
Advances from a related party	**(25,000)**	–
Advances from equity investor of an associate	**(27,800)**	–
Net debt	**(248,855)**	(219,524)
Cash and cash equivalents	**56,496**	159,118
Bank borrowings-fixed interest rates	**(121,362)**	(259,721)
Bank borrowings-variable interest rates	**(16,989)**	(52,721)
Advances-fixed interest rates	**(167,000)**	(66,200)
Net debt	**(248,855)**	(219,524)

36 CASH FLOW INFORMATION *(continued)*

(c) Net debt reconciliation *(continued)*

	Cash/bank overdraft RMB'000	Borrow due within 1 year RMB'000	Borrow due after 1year RMB'000	Advance from third parties, due within one year RMB'000	Advance from a related party, due within one year RMB'000	Advance from equity investor of an associate, due within one year RMB'000	Total RMB'000
Net debt as at 1 January 2016	71,500	(532,340)	(6,722)	(68,200)	–	–	(535,762)
Net cash flows	87,854	232,175	–	1,999	–	–	322,028
Foreign exchange adjustments	(236)	(11,643)	–	–	–	–	(11,879)
Other non-cash movements	–	6,724	(636)	1	–	–	6,089
Net debt as at 31 December 2016	159,118	(305,084)	(7,358)	(66,200)	–	–	(219,524)
Net debt as at 1 January 2017	159,118	(305,084)	(7,358)	(66,200)	–	–	(219,524)
Net cash flows	(101,991)	170,509	482	(48,000)	(25,000)	(27,800)	(31,800)
Foreign exchange adjustments	(631)	3,286	–	–	–	–	2,656
Other non-cash movements	–	–	(186)	–	–	–	(186)
Net debt as at 31 December 2017	56,496	(131,289)	(7,062)	(114,200)	(25,000)	(27,800)	(248,855)

37 COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office premises, stores under non-cancellable operating lease agreements. The leases have various terms and renewal rights.

As at the balance sheet date, the Group's future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Not later than 1 year	**47,582**	41,333
Later than 1 year and not later than 5 years	**182,618**	136,366
Later than 5 years	**79,215**	82,797
	309,415	260,496

37 COMMITMENTS *(continued)*

(b) Investment commitments

As at 31 December 2017 and 2016, committed investments are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Committed investments in an associate (Note 11)	**98,000**	–
	98,000	–

38 FUTURE OPERATING LEASE RENTALS RECEIVABLE

As at the balance sheet date, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Not later than 1 year	**3,254**	2,454
Later than 1 year and not later than 5 years	**10,356**	1,500
Later than 5 years	**26**	174
	13,636	4,128

The minimum lease receipts as set out above are mainly related to leasing of shop premises located at the Group's own stores and office building which are entered into primarily on a short-term or medium-term basis.

39 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

The directors of the Company are of the view that the following companies single individual were related parties that had transactions or balances with the Group during the years presented.

Name	Relationship with the Group
Mr. Cao Kuanping	Former chairman and former chief executive officer, former director of the Company
Jiangsu Huisheng	A joint venture of the Group
Noble Trade International	The single largest shareholder of the Group
Ruihu	An associate of the Group
重慶聖商	Parent company of Noble Trade International

(b) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the year:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
– Rental expenses to a related party		
Mr. Cao Kuanping	**3,744**	3,738
– Proceeds from advances from related parties		
Mr. Cao Kuanping	**25,000**	–
Jiangsu Huisheng	**2,500**	–
	27,500	–
– Purchase of goods from a related party		
Ruihu	**32,162**	–
– Directors' emoluments		
Salaries, bonuses and other welfares	**3,928**	5,920

In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business and at terms mutually negotiated between the Group and respective related parties.

Two property leasing contracts, one for office use and the other for retail purpose, were entered into by the Group with Mr. Cao Kuanping in 2013 for a term of 3 years from 20 January 2013 to 19 January 2016. During the year, these two lease contracts are extended to 19 January 2019. The aggregate annual rents payable by the Group to Mr. Cao Kuanping under the two property leasing contracts amounting to RMB3,743,600.

39 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Salaries and other allowances	**3,401**	3,392
Bonuses	**101**	–
Social security costs	**238**	293
Share Option Scheme expenses	**–**	1,581
Other benefits	**–**	358
	3,740	5,624

(d) Balances with related parties

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Advances from related parties		
– Mr. Cao Kuanping	**25,000**	–
– Jiangsu Huisheng	**2,500**	–
– Ruihu	**22,632**	–
	50,132	–
Deposit of subscription of ordinary shares of the Company		
– 重慶聖商	**2,930**	–
Salaries, bonuses and welfares payable to directors:		
– Mr. Cao Kuanping	**152**	152
– Mr. Mao Shanxin	**19**	19
– Mr. Mo Chihe	**24**	24
– Mr. Wang Zhijin	**69**	69
– Mr. Lu Chaolin	**19**	19
– Mr. Li Hengjian	**14**	–
	297	283

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in and amounts due from subsidiaries	**36,648**	1,061,152
Current assets		
Prepayments, deposits and other receivables	**–**	21,363
Dividends receivable	**–**	14,055
Cash and cash equivalents	**206**	581
	206	35,999
Total assets	**36,854**	1,097,151
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital: nominal value	**13,739**	11,462
Share premium (Note)	**1,613,731**	1,380,409
Other reserves (Note)	**119,475**	119,475
Accumulated losses (Note)	**(1,736,837)**	(1,174,660)
Total equity	**10,108**	336,686
LIABILITIES		
Non-current liabilities		
Borrowings	**7,062**	7,358
Current liabilities		
Accurals and other payables	**2,695**	700,385
Borrowings	**16,989**	52,722
	19,684	753,107
Total liabilities	**26,746**	760,465
Total equity and liabilities	**36,854**	1,097,151

Yuan Li
Director

Liu Simei
Director

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Note: Reserve movement of the Company

	Share premium RMB'000 Note (a)	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	1,201,278	74,643	(452,281)	823,640
Loss for the year 2016	–	–	(722,379)	(722,379)
Placing of ordinary shares	179,131	–	–	179,131
Share Option Scheme - value of employee services	–	44,832	–	44,832
Balance at 31 December 2016	1,380,409	119,475	(1,174,660)	325,224
Balance at 1 January 2017	1,380,409	119,475	(1,174,660)	325,224
Issue of ordinary shares (Note19)	233,322	–	–	233,322
Loss for the year 2017	–	–	(562,177)	(562,177)
Balance at 31 December 2017	1,613,731	119,475	(1,736,837)	(3,631)

41 CONTINGENCY

During the year ended 31 December 2017, the Group's subsidiary, Jiangsu Electronics Commerce obtained one month borrowing of RMB100 million from Ruihua. During the year, Jiangsu Electronics Commerce had repaid RMB85 million after the due date. As at 31 December 2017, based on management's estimate, the outstanding principal and the late penalty charge accrued as at 31 December 2017 were RMB27,800,000 and RMB350,000, respectively. In January 2018, the Group repaid another RMB25 million to Ruihua. According to management's estimate, the unsettled principal and related penalty charge due to Ruihua would be RMB3,315,000 and RMB385,000 as at 31 August 2018, respectively. In August 2018, Ruihua initiated a legal claim against Jiangsu Electronics Commerce for a total amount of RMB18,038,000, including principal of RMB15,730,000 and overdue charge of RMB2,308,000. The Directors of the Company considers that the Group have made sufficient accrual as at 31 December 2017 to cover the outstanding balance of the borrowing from Ruihua and related overdue charges. Also, the Group would defend vigorously against this claim and consider no additional provision is necessary as at 31 December 2017.

42 SUBSEQUENT EVENTS

On 3 January 2018, 480,000,000 ordinary shares were successfully issued and allotted to five individuals at a subscription price of HKD0.5 per share. Net proceeds from the subscription amounted to HKD239,200,000.

Between the period of January 2018 and January 2019, the Group borrowed RMB441,000,000 in total from related parties or third parties influenced by Shengshang Group.

In December 2018, Jiangsu Electronics Commerce, the Group's subsidiary entered into an agreement with two third party individuals under which all the Group's equity interest in Nanjing Lehu and its subsidiaries ("Nanjing Lehu Group") had been sold to the two individuals at a consideration of RMB1. Management estimated that the disposal of Nanjing Lehu Group would result in a loss of approximately RMB35,000,000, which would be recognised in the consolidated financial statement of the Group for the year ended 31 December 2018.

43 APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 59 to 147 were approved and authorised for issue by the board of directors of the Company on 29 January 2019.

FINANCIAL SUMMARY

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**1,347,436**	1,384,029	2,053,850	3,093,022	2,849,142
Profit/(loss) attributable to equity holders of the Company	**(720,604)**	(722,752)	(398,598)	50,004	(149,755)
Assets and liabilities					
Total assets	**1,015,475**	1,895,820	2,714,342	3,396,448	3,287,913
Total liabilities	**1,185,013**	1,559,070	1,937,043	2,549,626	2,560,427
Total equity	**(169,538)**	336,750	777,299	846,822	727,486
Non-controlling interests in equity	**28,756**	22,436	12,833	45,145	35,852