GOME 国美

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

(Incorporated in Bermuda with limited liability)

(Stock Code : 493)

Annual Report 2018

* For identification purpose only


GOME
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CONTENT

GOME at a Glance

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

"Home • Living" strategy driven by Shared Retail, new business development gained momentum

Highlight

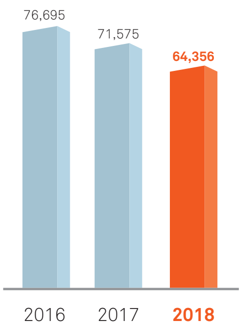
Shared Retail – ME Shop GMV increased by approximately **368%**

The GMV from smart products increased by approximately **89%**

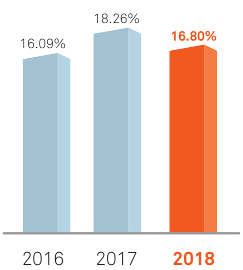
One–stop Home Solution – integration of kitchen cabinets with electrical appliances GMV increased by approximately **116%**

Service GMV increased by approximately **51%**

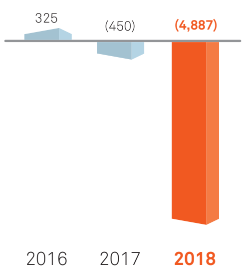
Revenue
(RMB million)



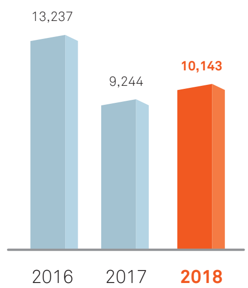
Consolidated gross profit margin*



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



Cash and cash equivalents
(RMB million)



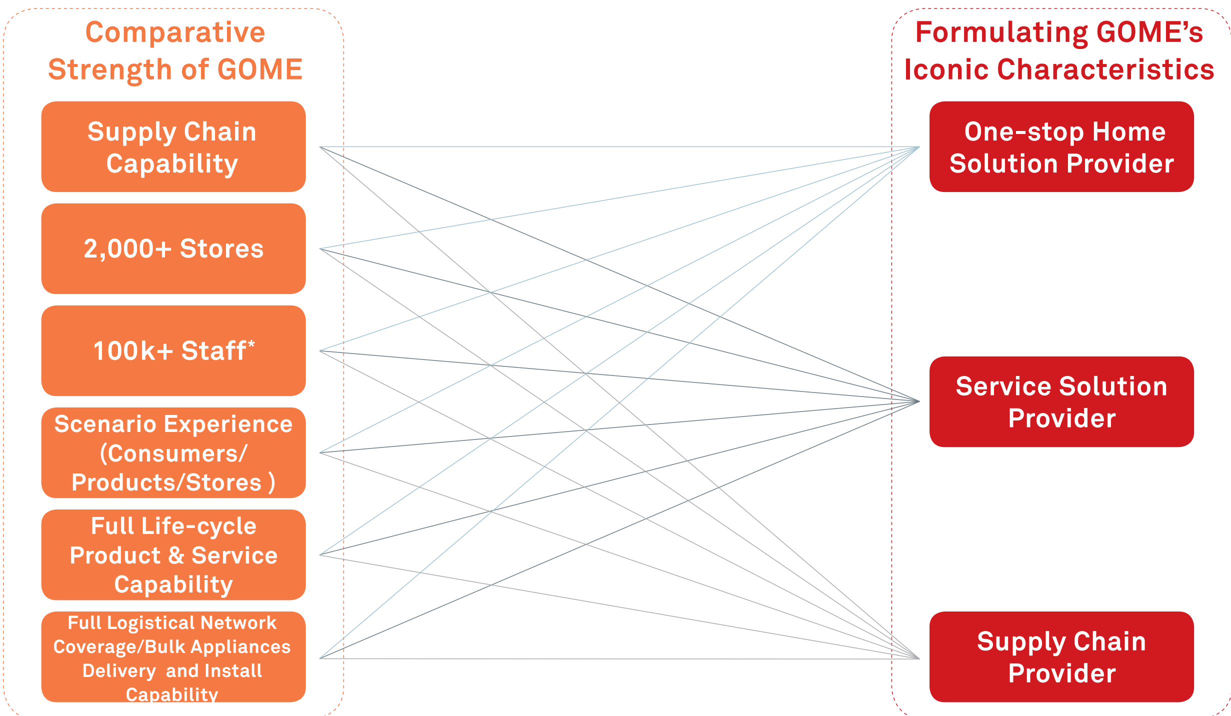
* Consolidated gross profit margin = (gross profit + other income and gains)/revenue

Five Year Financial Summary

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000	Year ended 31 December 2014 RMB'000
Revenue	**64,356,031**	71,574,873	76,695,025	64,595,127	60,359,843
(Loss)/profit attributable to owners of the parent	**(4,886,895)**	(449,895)	325,139	1,207,963	1,279,770
Total assets	**60,741,791**	63,224,019	61,802,129	41,587,785	44,076,673
Total liabilities	**49,658,027**	45,697,793	40,826,902	24,899,423	28,042,155
Non-controlling interests	**(2,993,883)**	(2,386,899)	(1,510,932)	(1,137,587)	(871,398)
Net assets	**11,083,764**	17,526,226	20,975,227	16,688,362	16,034,518

ESTABLISHING A NEW RETAIL PATHWAY WITH GOME'S ICONIC CHARACTERISTICS

Leveraging the key strengths of self-operating products and services, GOME has developed itself into a new ecosystem in the retail industry and become a One-stop Home Solution, a Service Solution and a Supply Chain Provider

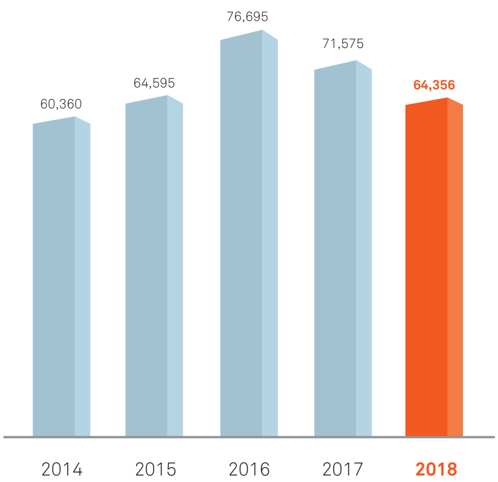


* Including self employed staff and promoters from the suppliers

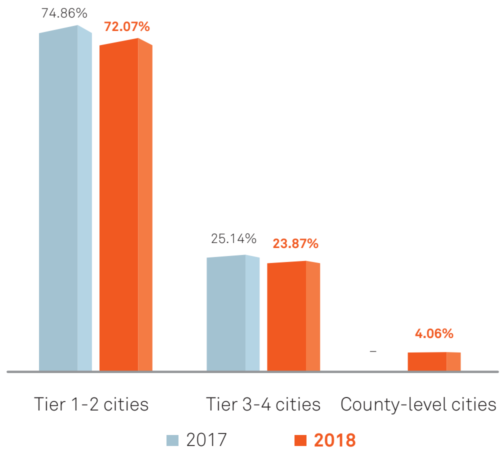
Financial and Operational Highlights

REVENUE

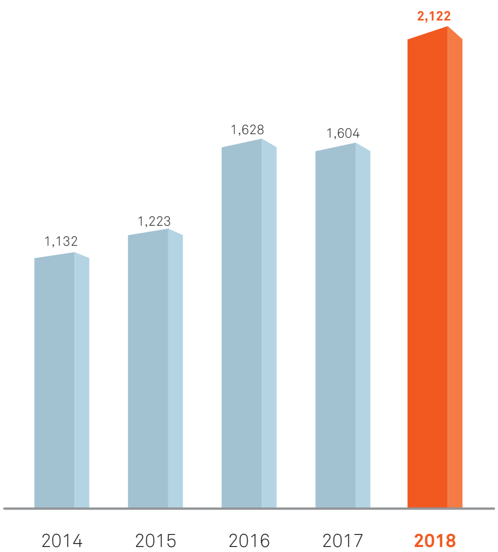
(RMB million)



REVENUE BY TIERS OF CITIES

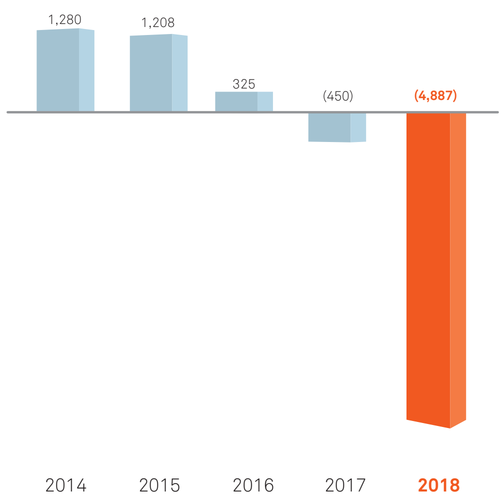


NUMBER OF STORES AT YEAR END



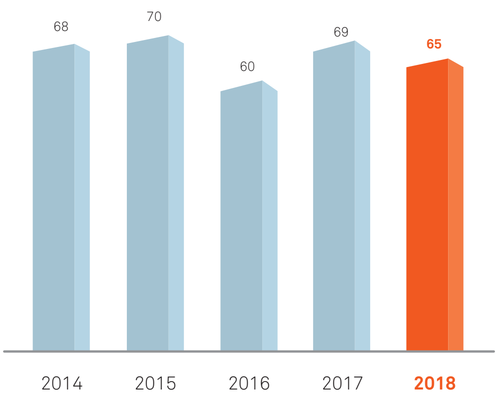
(LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

(RMB million)



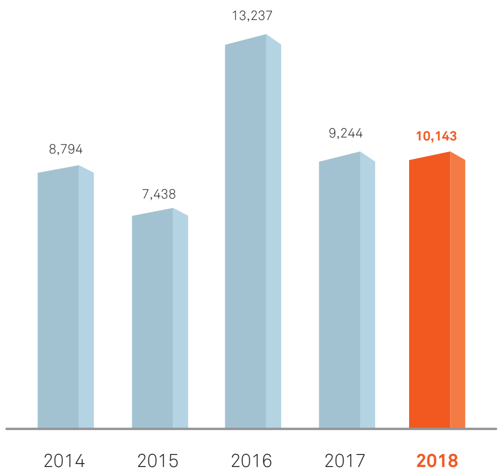
Financial and Operational Highlights

INVENTORY TURNOVER DAYS



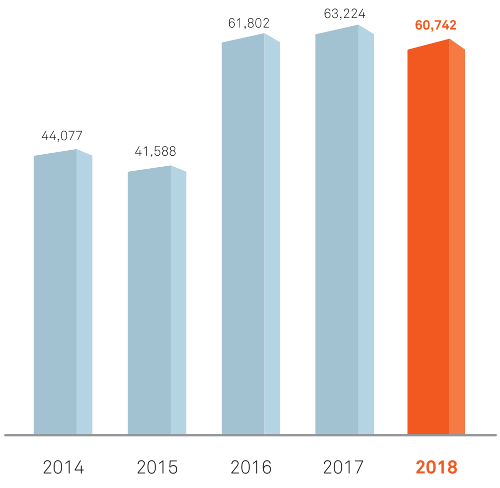
CASH AND CASH EQUIVALENTS

(RMB million)



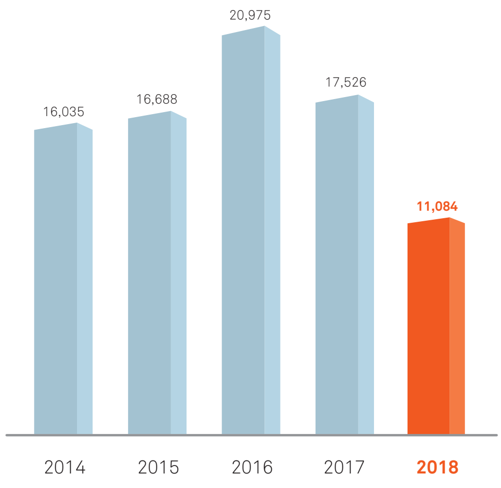
TOTAL ASSETS

(RMB million)



NET ASSETS

(RMB million)




家里每天还要晒被？
床用除螨利器 远离过敏源


ZBOM志邦

Looking forward, GOME will continue to focus on major large-scale integrated flagship store projects in the first- and second-tier cities in an effort to provide one-stop comprehensive household solution, from home appliance to decoration, construction and household services.

Chairman's Statement

ZHANG DA ZHONG
Chairman

Currently, with the Group's strategic transformation has entered a critical stage, the Group's new business began to take its initial shape. The Group is positive to inaugurate a new retail era with GOME's characteristics. With the new market, new business and new technology as the important pillars of its growth, the Group is committed in pursuing better shareholder value.

Dear Shareholders,

2018 brought the Group its share of challenges, some due to the macroeconomic environment, in addition to GOME's strategic transformation. The Group nonetheless rose high above them, and we have leveraged these challenging experiences to establish a new retail era with GOME's characteristics. The end result was the integration of the three terminals – the GOME APP, physical stores and ME Shop – to become a "Home Living" provider of one-stop home solutions, service solutions and supply chain services.

To this end, the Group has developed the following new blueprint:

Under GOME's current retail system, the GOME APP, physical stores and ME Shop terminals have clearly defined their respective positioning: the GOME APP specialises in membership services and product operation, while ME Shop consolidates social, business and sharing benefits. Now that the GOME APP is our centralized platform for traffic collection and distribution, all three terminals can share traffic, tools and scenarios with each other, achieving the integration of the online and offline business streams.

In addition to our continued focus on home appliances, the "Home Living" strategy also enhances new services such as home furnishings, kitchen cabinets, kitchen product showcases and cozy home. Our strategic focus also extends to self-owned brand businesses and the development of Internet of Things (IoT) capabilities. To cement our transformation into a one-stop home solution provider under the "Home Living" strategy, we will build our three core businesses namely the IoT Cloud Platform, our self-owned brand and the Operating System (OS) as part of delivering a "1+1+1=Home" and "GOME Smart Home" retail ecosystem.

Chairman's Statement

As part of its bid to become a "Home Living" service solutions provider, the Group focuses its efforts on three directions: commoditization of services, professionalization of service teams and full life-cycle services. With the establishment of GOME House Manager as the major platform for online and offline services, GOME's service products now include installation, cleaning, repairing, recycling and consultation. The Group aims to further promote the professionalism of its teams and to improve its professional service capabilities by bringing the Group's service commitments to the fore: "Installations with Delivery", "Bulk Delivery for Packaged Products", "Same-day Delivery", "Next-day Delivery", "Money Back for Late Delivery" and "One-click Returns", to name a few. We are now in the era of "Full Product Life Cycle Services", which means that a purchase is no longer simply a one-off interaction with users. Products are closely monitored throughout the life cycle through data flows and IoT technology. Data-driven alerts will be used to create service orders that are sent to users and service providers through the GOME APP. Such "Product Life Cycle Services" not only create multiple sales and services opportunities, but also leading GOME to be the first choice of customers.

Thirty-two years of experience in the home appliances market with deep cooperations with a wide range of consumer brands have quite naturally enhanced GOME's strong supply chain and procurement capacities. To better capitalise on its supply chain procurement resources, the Company strives to export and expand them, in addition to serving its solid network of more than 2,000 physical stores and GOME APP. As GOME expands its county-level and rural market networks, the Company will promote the franchise stores by providing supply chain services and end-to-end logistics directly to customers. Following a similar model, GOME will promote the partner scheme and extend our reach to the supermarket and professional home decoration materials and home furnishing markets. The ME Shop social networking platform will empower hundreds of thousands of ME Shop business owners by providing them with a portfolio of high-quality, high-commission products, transforming ME Shop owners into both a vector for GOME's new retail strategy and a beneficiary of it.

Another year of transformation awaits us in 2019. We are firmly in the era of user-oriented consumption, and as a retail enterprise, we stand ready to be driven by user-focused thinking. Technology drives the era that we do business in, and we stand ready to leverage on the Internet technology to transform every retailing process. This is also the era of inseparable supply and service chains, and we stand ready to conduct deep integration of our existing supply chain resources and professional commodification services. GOME will continue to be a pioneer in facilitating the transition from home appliance retailer to "Home Living" provider of one-stop home solutions, service solutions and supply chain services. The Group will also offer customers unparalleled convenience and efficiency through the combination of GOME's physical stores, GOME APP and ME Shop, in order to inaugurate a new retail era with GOME's characteristics.

Finally, I would like to express my heartfelt appreciation to the dedication of all GOME staff members, and my sincere gratitude to the community for their support of GOME. We will continue to devote ourselves to creating value for shareholders, employees and customers and driving the long-term sustainable development of GOME. I am confident that under the leadership of the Board, GOME will develop rapidly and steadily, overcome challenges and deliver the new retail strategy.

Zhang Da Zhong
Chairman

Management Discussion and Analysis

It will become a norm for the retail industry to be data-driven and apply technology in its operations. On the back of consumption upgrade, the industry prepares for the advent of a new era of consumption.

OVERVIEW

For the year ended 31 December 2018 (the "Reporting Period"), GOME Retail Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "GOME") actively embarked on a path to a new retail era with GOME's characteristics and through the integration of GOME APP, physical stores and the ME Shop, the Group strives to transform itself into an integrated home solution, service solution and supply chain provider based on the strategy of "Home • Living". Leveraging on its logistics and after-sales service capabilities, the Group is committed to becoming the largest logistics, installation and maintenance service provider on home appliances and bulky household items in China. The Group is building a new retail ecosystem by virtue of its self-operated product and service capabilities.

There had been a steady development in the Group's new market, new business and new technology during the Reporting Period. The Group recorded an increase in gross merchandise volume ("GMV") of 116% for its new businesses such as home solution and integration of kitchen cabinets with electrical appliances as compared with the corresponding period last year. The Group is also a pioneer in the industry in developing the self-operated cabinet business model through a partnership with IXINA, a top kitchen cabinet chain store brand in Europe. While persistently exploring new types of stores, the Group continues its strategic development of large-scale integrated flagship stores and home decoration material stores in the first- and second-tier cities, and expedite its county-level stores network in the third- to sixth-tier cities. In 2018, the Group opened 602 new stores in total. Leveraging on the continuous optimized middle-end data platform and big data technology, the Group continues to provide its consumers with lifecycle service solutions of merchandise and to expand its smart home solutions business. The Group started to provide services to both its customers and third-party partners through GOME House Manager and warehousing services. Currently, the contribution of service income to consolidated gross profit has been improved. The booming new business indicates that the strategic transformation is progressing well.

Management Discussion and Analysis

During the Reporting Period, the total GMV of the Group for both online and offline operations remained stable as compared with the corresponding period last year, among which GMV from ME Shop grew by 368%, while service GMV and GMV from smart products grew by 51% and 89%, respectively, as compared with the corresponding period last year. The consolidated gross profit margin maintained at a high level for the industry of approximately 16.80% as compared with 18.26% in the corresponding period last year. As of 31 December 2018, the Group had sufficient capital with cash and cash equivalents of approximately RMB10,143 million.

During the Reporting Period, the Group's traditional business was affected by a sluggish macro-economy. The sales revenue for 2018 was approximately RMB64,356 million, decreased by 10.09% as compared with RMB71,575 million in the corresponding period last year, resulting in a decrease in the consolidated gross profit from RMB13,067 million in the corresponding period last year to approximately RMB10,809 million. The total operating expenses (including the impairment losses on goodwill discussed below) was approximately RMB15,446 million, increased by 14.85% as compared with RMB13,449 million in the corresponding period last year. The financial costs still stood at a relatively high level of approximately RMB861 million as compared with RMB692 million in the corresponding period last year. In addition, to be conservative and comply with the applicable accounting standards, the Group has provided a goodwill impairment amounted to approximately RMB2,185 million on some businesses which did not meet expectations. Taking into account the above factors, the Group's loss attributable to owners of the parent during the Reporting Period was approximately RMB4,887 million, as compared with a loss of RMB450 million for the corresponding period last year.

Currently, with the Group's strategic transformation has entered a critical stage, the Group's new business began to take its initial shape. The Group is positive to inaugurate a new retail era with GOME's characteristics. The Group will also take physical stores and ME Shop as the core of its low-cost traffic gateways, making the GOME APP as a centralized platform for traffic collection and distribution, in order to have the three terminals to share traffic, tools and scenarios with each other. The Group leverages the internet model to accomplish its transformation and realize online and offline integration. With the new market, new business and new technology as the important pillars of its growth, the Group is committed in pursuing better shareholder value.

Management Discussion and Analysis

BUSINESS ENVIRONMENT

During the Reporting Period, global economic growth slowed down as international trade decelerated, direct investment activities weakened, and upward trends in debt level continued, against a backdrop of volatile financial markets. In 2019, downside risks for global growth are poised to deepen, with market volatility again on the rise, trade war and the trend of de-globalisation will bring with it even more uncertainty.

In 2018, the economic growth in mainland China also experienced a slowdown, with weakened demand for investments, consumptions and exports. The external economic environment became complicated and the Chinese economy is facing downward risks. In 2018, China's GDP grew by 6.6%, a decline of 0.2 percentage point year-on-year. Growth in fixed asset investment and total retail sales was the lowest in recent years. Consumption demand has continued to recede and it was an important factor leading to the weakening of overall demand.

In the retail industry, Chinese retail enterprises have carried out innovative reforms in recent years, actively adapted themselves to the consumption upgrade, and focused on improving the quality and efficiency of products and services. These can be seen in four areas: First, the development of quality retail, where companies refocused on the essence of retail through business model transformation, and the enhancement of the quality of products and services. Second, the development of innovative cross-selling technologies for different consumer groups, enriched consumer-related content and customer experiences. Third, pushing forward smart retail to enhance the shopping experience. Finally, the enhancement of green retail and promoted sustainable development.

MARKET DEVELOPMENT POTENTIAL

Going forward, we are facing both challenges and opportunities. At the macro level, the government is encouraging private economic development and launching a series of measures, including home appliance subsidies, tax and levy cuts, as well as initiatives facilitating financing for private enterprises. At the industry level, the retail industry prepares for the advent of a new era of consumption. New business opportunities emerge with the rise of new consumer groups and the emergence of the consumption potential of third- to sixth-tier cities. At the technology level, it is expected that the commercialisation of 5G will drive innovation in retail technology which will bring new development opportunities.

BUSINESS REVIEW

Continue to Drive Towards the "Home • Living" Strategy

Integration of GOME APP, Stores and the ME Shop

During the Reporting Period, the Group has succeeded in the integration of the systems of the three terminals – GOME APP, physical stores and the ME Shop, and achieved low-cost sharing of data traffic, together with enhanced productivity.

Empowered by the technology and data, the GOME APP acts as the master platform of the Group for data collection and distribution. By connecting with GOME's business network, such as physical stores, the ME Shop, mini-programs, GOME House Manager, GOME finance and payment systems, GOME APP will be able to carry out functions such as data collection, computation and application. Customers can use it to buy, make enquires and obtain services anytime, anywhere, while GOME employees can conduct 24-hour sales a day through the GOME APP, which greatly enhances efficiency while meeting customer needs.

ME Shop is an benefit-sharing and distribution tool, which also shares data flow and user information from the GOME APP. During leisure time, GOME employees can share products to their friends through marketing functions such as "Best Selections", "Group Purchase" and "Best-Selling Products" via ME Shop, which substantially strengthens the product precision marketing. In 2018, GMV from ME Shop grew by 368% year-on-year, with ME Shop owners achieved 420,000 and serving a total of over 3.5 million users.

Large-scale Integrated Flagship Stores

Offline, over the course of implementing its "Home • Living" strategy, GOME is enhancing the diversity of in-store products and consumption scenarios through self-operated + platform model, providing customers with a variety of home solutions and making the store a hub in the region for quality life. The Group exhibits self-operated products and introduces, through its platform, a wide range of closely related, high-traffic and high-experience peripheral products to the stores, based on the local market condition, the characteristics of the business circle, and the consumption habits of the target customers. New scenario showrooms, such as home decoration, home furnishing, integrated kitchens, central air-conditioning, heating and ventilation, water purification systems, e-sports, Internet cafes, entertainment and finance are added to the GOME stores in order to provide users with integrated solutions for smart living.

During the Reporting Period, the Group continued to transform its existing stores in cities such as Beijing, Xi'an, Chengdu, Chongqing, Shenyang, Xiamen and Wuxi into large-scale integrated flagship stores. A total of 18 such stores were transformed, while 5 were newly opened.

Optimising the Store Network

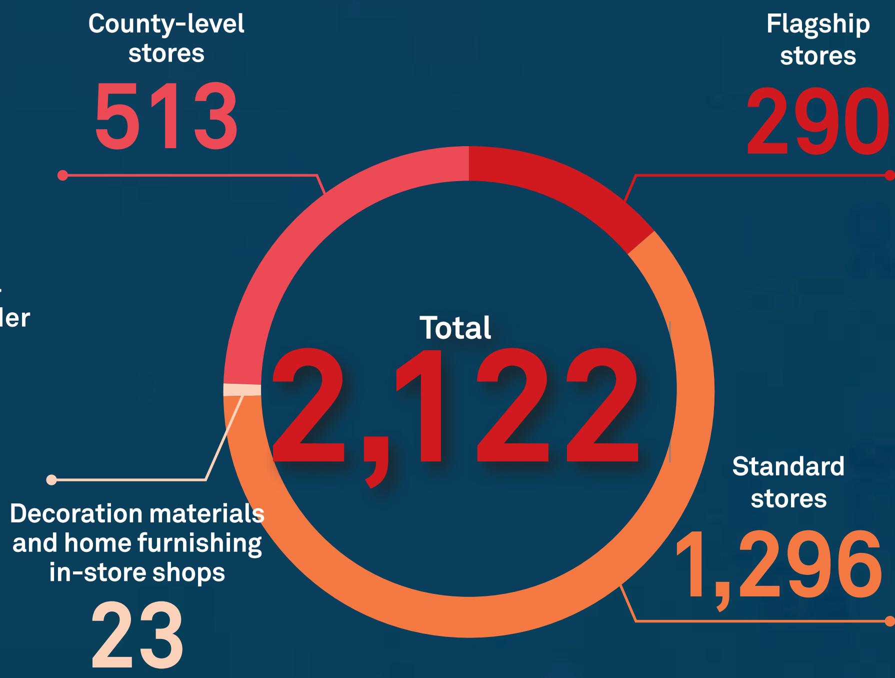
During the Reporting Period, GOME made significant progress in large-scale integrated flagship store projects in the first- and second-tier cities (including Beijing, Shanghai, Guangzhou, Shenzhen, provincial capitals and similar cities) with an aim to attract customer traffic by opening large-scale experiential stores. There were also in-store home decoration and furnishing shops as well as in-store supermarkets which broadened the product mix.

As income per capita grows and urbanisation accelerates, third- to sixth-tier cities (including county-level cities, counties and towns) have laid a solid economic foundation for future growth. The impact brought by e-commerce is lesser in these regions since development of the Internet, logistics and after-sales services have lagged behind. These

The Group's
nationwide retail network

As at 31 December 2018

On 31 December 2018, the total number of stores operating under the Group reached 2,122 and spanned 606 cities.



Nationwide Store Network

	Group Total	GOME	China Paradise	Dazhong	Cell Star
Flagship stores	290	238	29	22	1
Standard stores	1,296	1,130	93	22	51
Decoration materials and home furnishing in-store shops	23	22	1	-	-
County-level stores	513	480	22	10	1
Total	**2,122**	**1,870**	**145**	**54**	**53**
Net increase in store number	463	437	12	8	6
Newly-opened stores	602	557	26	10	9
Closed stores	139	120	14	2	3
Number of cities accessed	606	553	72	8	6
Among them:					
Tier 1-2 cities	425	391	60	1	6
Tier 3-6 cities	181	162	12	7	-
Cities newly accessed	185	166	12	7	-

Management Discussion and Analysis

cities have produced a more amenable potential for the development of the home appliance industry. GOME will explore these new markets by continuing to open stores in these regions and introduce franchise model to existing local stores in the county-level market to quickly expand its network coverage.

During the Reporting Period, the Group opened 602 new stores and closed 139 stores, bringing the net opening number to 463, for a grand total of 2,122 stores as at the end of the year. Among them, there were 23 decoration materials and home furnishing in-store shops and 513 county-level stores.

The Group's rental cost accounted for 6.36% of the sales revenue, increased as compared with 5.77% in 2017. The Group rented a total of 2,077 stores, among which the leases of 216, 204 and 201 stores will be expiring in 2019, 2020 and 2021, respectively. During the Reporting Period, the Group had 45 self-owned stores with a gross floor area of approximately 318,000 square meters.

Focusing on Developing New Business of "Integrated Cabinets and Electrical Appliances", "Cozy Home", Decoration Materials and Home Furnishing Products

The Group started the "integrated cabinets and electrical appliances" project in 2018 to offer comprehensive kitchen solutions by combining renowned kitchen cabinets with professional home appliances. The Group has established strategic partnerships with leading kitchen cabinet brands in China, such as Oppein, Zbom and Goldenhome. In addition to the partnerships through platform model, GOME also runs its own integrated cabinet business. GOME is the exclusive strategic partner of IXINA (the largest kitchen cabinet retail brand in Europe) in China and aims to provide customers with integrated quality kitchen services by combining GOME's strong supply chain management in home appliances with IXINA's professional cabinet design.

The Cozy Home business offers solutions for use of water, indoor air-conditioning and air purification, and will focus on developing eight major systems, namely centralised air-conditioning, floor heating, fresh air, overall water purification, security, centralised air purifier, smart home and centralised water heating in order to provide users with comfortable living environment.

In 2018, the Group continued its collaborations with renowned brands such as Dashu Zhuangshi, Shangpin Home and Ehomy as part of its platformed operations by opening in-store shops in GOME stores. Concurrently, the Group established a self-operating home furnishing company and developed its own team of interior designers. The Group was able to provide one-stop solutions for home design and decoration together with home appliances, with the advices from professional designers, to its mid- to high-end customers, to help them creating both functional and comfortable living spaces.

In addition to home furnishing services, the Group enjoyed strategic partnerships with national chain enterprises such as Easyhome and Ayd, and regional chain businesses such as FAJ Furnishing and Building Materials, Bowon, Fu'erma Home Furnishings and Guo Bang Beautiful House, to open in-store shops providing home decoration materials.

Supply Chain

The Group further enhanced the efficiency of the supply chain platform in 2018 as an initiative of the "Home • Living" strategy, providing customers with comprehensive "Home • Living" solutions comprised of home appliances, decoration, construction and household services. GOME's supply chain and procurement resources were not only serving the online stores, ME Shop and its over 2,000 physical stores, but also exporting merchandises to franchise stores and providing logistic services to business customers. In addition, the Group has also entered into strategic partnerships with Amazon, Pinduoduo and other platforms in opening online GOME flagship stores and "brand stores" to provide customers with genuine products, logistics and after-sales services.

Moreover, the Group has also launched an automated procurement platform that not only automates procurement process, but also digitises procurement decisions and makes the procurement process trackable at every single stage. The platform started with the 3C business line, achieved automation and visibility in procurement inquiry and order building, and brought improvements to procurement control, internal communication efficiency and data security. The system has laid a foundation for the further development of smart procurement system.

Online-offline Integration

Thanks to the optimisation of internal systems and procedures, the Group has achieved the integration of online and offline terminals and data, which provides flexibility by enabling customers to experience the products and place orders offline, while paying online. The Group has also completed the integration of online and offline platforms in terms of information flow, product cycle and cash cycle, The information including membership, orders, merchandise, marketing and data can then be unified. For standardised products or products that users have experienced offline, rather than going into the store physically, users can choose to simply tap on the GOME APP to place orders at any time any where. This not only brings convenience to customers, but also enables better data collection and analysis of consumer behaviour, which results in more accurate marketing manoeuvres.

Smart Home Development

During the Reporting Period, the Group focused on Big Data and Internet of Things (IoT) systems to develop an interconnected one-stop smart home platform, providing customers with a connected, open and comprehensive smart home solutions. At present, approximately 50 product categories with over 70 brands such as Haier, Midea and Gree have joint the platform. Going forward, GOME will focus on developing three core businesses, namely IoT Cloud Platform, self-owned brand, and the Operating System (OS), with an aim to eventually achieve "1+1+1=Home" and "GOME Smart Home" retail ecosystem, thus completing the transformation into a "Home • Living" one-stop home solutions provider.

Upgrading Full Spectrum of Services

Optimising Logistics Services

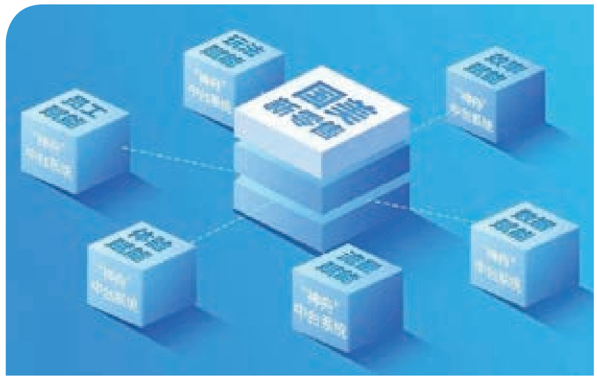
In 2018, the Group continued to strengthen the coverage of its logistics distribution network and developed a four-level warehouse system, including regional central warehouses, Tier-1 warehouses, Tier-2 warehouses and county-level distribution stations. At the end of the year, the Group had over 2,000 warehouses with a total storage area of about 3,000,000 square meters, covering 92% of the cities in China. The Group has also upgraded certain major warehouses into shared warehouses, facilitating cross-regional and cross-business-lines sales.

Riding on the successful launch of "Installations with Delivery" (delivery + installation in one go) in the first-tier cities in 2017, the Group began to expand the "Installations with Delivery" services to extensive product categories in the second-tier cities across China in 2018. This model reduces the number of visits required and customer waiting time, enhancing both efficiency and customer satisfaction.

After-sales Services – "GOME House Manager"

"GOME House Manager" is one of the Group's self-developed Internet based service platforms. It is an ecosystem of integrated supply chain providing quality service experiences during the course of pre-sales, sales, and after-sales to the customers. "GOME House Manager" provides full life-cycle service packs such as delivery and installation, maintenance, appliance recycling, smart home IoT and smart customer servicing. With "GOME House Manager", customers can also enjoy delivery services such as "Three Deliveries/day", "Precise Delivery", "Installations with Delivery". The electronic warranty card, electronic manual and appliance cleaning records are stored in the "GOME House Manager" database for customers to review at any time.

Management Discussion and Analysis



Aiming to meet all aspects of customer needs, the Group always strives to provide them with swift, professional and convenient quality services. In 2018, “GOME House Manager” had more than 15,000,000 users and managing over 30,000,000 home appliances. Service SKUs rose from over 300 to over 800. The service GMV grew by 51% as compared with 2017.

Smart Customer Service – “GOME Jiunuo”

“GOME Jiunuo” (meaning “nine service pledges”) is a comprehensive customer service system of the Group – a reflection of the Group’s continued focus on fulfilling customer needs and optimising customer service. The Group completed the upgrade to its customer service system in 2018, and improved efficiency by increasing the number of customer service robots. Moreover, the Group offered service pledges such as “Price Difference Compensation”, “Money Back for Late Delivery” and “Free Refund”, which entirely alleviated customer concerns. Leveraged on the Internet technology, the Group made the offline retail service process trackable, and set up online service feedback platforms, which was well received by its customers.

Strengthening Information Systems

In 2018, the Group adopted various measures to enhance the technical skills of the information system management team while boosting the power for the information system to support current and future businesses. At the same time, the Group strove to enhance its R&D efficiency and lower the costs of R&D operations. In managerial terms, a technological committee was established at the group level to organise the technological management structure. A technology admiring culture was built in GOME which helps the advancement of its technological development.

Smart Store

The Group launched the Smart Store program in 2018 to explore new business opportunities, the first pilot store was opened in Beijing. The store applied new technologies and hardwares such as facial recognition, Radio Frequency Identification (RFID), smart gates and smart inductive cameras. Purchases can be automatically settled in the Smart Store according to customers characteristics, thus creating an ultra-smooth shopping experience. Upon achieving satisfactory results, the Smart Store concept could be further expanded to all GOME stores nationwide.

The Shen Zhou Middle-End Data Platform Project

Following the strategic planning of integrating online and offline businesses, the Group’s Information Centre continued to upgrade and optimise the middle-end platform. In 2018, the Group developed a new version APP specifically tailor-made for GOME staff, which included useful tools such as shopping guides, sales management, customer management, computations and statistics. It merged online and offline operations, unified various systems in areas such as products, data, users, membership and orders. The convenience of this application has not only enhanced operational efficiency, but also offered customers with comprehensive products and services.

CORPORATE GOVERNANCE

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

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

ESTABLISHMENT OF THE CORPORATE CULTURE

During the Reporting Period, following the "Home · Living" strategy, and the strategic initiatives of "New Business, New Markets, New Technology", as well as based on the existing culture of "Trust", the Group continued to deepen the enterprise's core values. By using multiple means and innovative communication platforms, the Group promoted and optimised its corporate culture, and put forward "GOME Leadership Principles", to deepen the cultural essence which consist of "Customer First", "Be All of One Mind", "Prompt Response", "Pragmatically Pursuing Truth", "Winning Trust", "Integrity and Self-Discipline", "Precise and Efficient", "Diligent and Frugal", "Coordinate", "Complement", "Cooperate", etc. These principles pushed forward the positive development of corporate culture, which will also be the solid foundation for GOME's continuous development.

HUMAN RESOURCES

During the Reporting Period, in order to accomplish the strategic transformation, the Group's training centre promoted the ideology of "thinking from the perspective of a customer with corporate goals in mind", and enhanced the leadership skills and the ability of the employees to drive new businesses. Following the core value of "Customer First" from the GOME Leadership Principles, the Group further developed its training programs, including "Reservoir Training", "Workplace Acceleration Program" and "Senior Executives Succession Plan", which fulfilled the Group's guidelines of "Choose the Right Person and Train the Capable Person", as well as motivated the employees' self-demand of "Learning to be Innovative and Inclusive". These training programs have also perfected the career ladders from entry-level staff to senior management, and incubated talents for new projects and new businesses.

In terms of training systems, the Group continued to explore breakthroughs and innovation, and has launched various training programs such as the "Funnel Filter Mechanism", "Business Simulation Trainings", "Online Learning + Think Out-of-the-box Seminars" and "Action Learning", which enhanced training efficiency and efficacy.

In 2018, the Group received numerous major awards including "Reform and Opening of China for 40 Years Ever Green Award for Chain Store Enterprise", "Most Popular Employer for University Students" and "CCFA Outstanding Corporate Universities Best Talent Development System".

FINANCIAL REVIEW

Revenue

During the Reporting Period, the macro-economy was sluggish with the Group's strategic transformation entering into a critical stage, the Group's traditional business was affected. The Group's revenue was approximately RMB64,356 million, down 10.09% from RMB71,575 million in 2017.

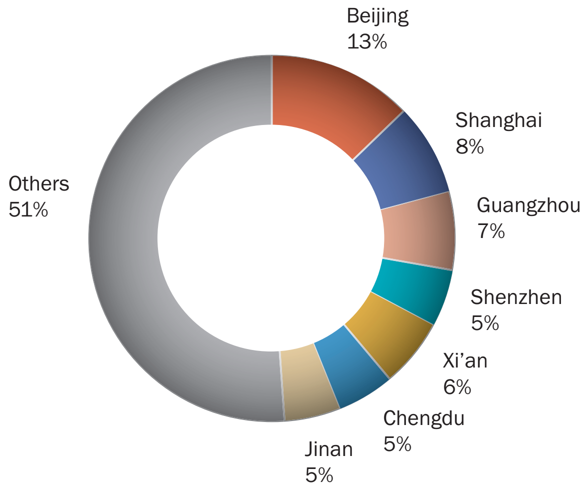
During the Reporting Period, aggregate sales of 1,381 comparable stores of the Group was approximately RMB53,202 million, down 13.78% from RMB61,702 million for the corresponding period in 2017. Sales revenue from the four regions of Beijing, Shanghai, Guangzhou and Shenzhen accounted for approximately 33% of the total revenue, as compared with 34% for the corresponding period last year, representing a decrease in revenue contributed from the first-tier market. In addition, the proportion of revenue from county-level stores has increased to 4.06% of total revenue while the revenue from new businesses (including integration of kitchen cabinets with electrical appliances, home decoration and home furnishing, etc.) has increased to 4.70% of total revenue.

Cost of sales and gross profit

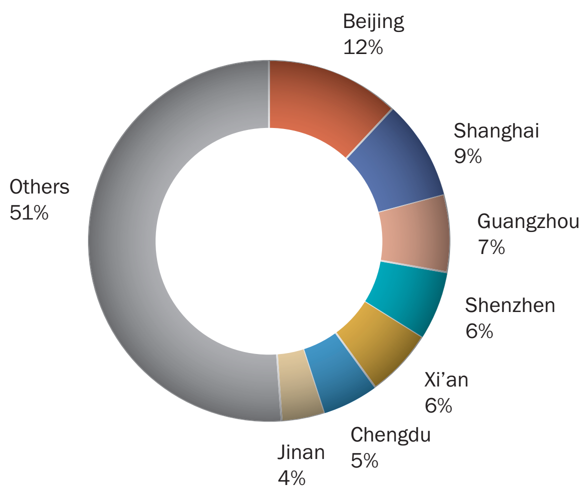
Cost of sales of the Group was approximately RMB54,617 million in the Reporting Period, accounted for 84.87% of the revenue, similar with 84.55% for the corresponding period in 2017. With the decrease in revenue, gross profit was approximately RMB9,739 million, down 11.90% from RMB11,055 million for the corresponding period last year. The gross profit margin was approximately 15.13%, decreased by 0.32 percentage point as compared with 15.45% for the corresponding period last year. The gross profit margins of each product category remained relatively stable as compared with the corresponding period last year.

SALES REVENUE OF THE GROUP BY REGION:

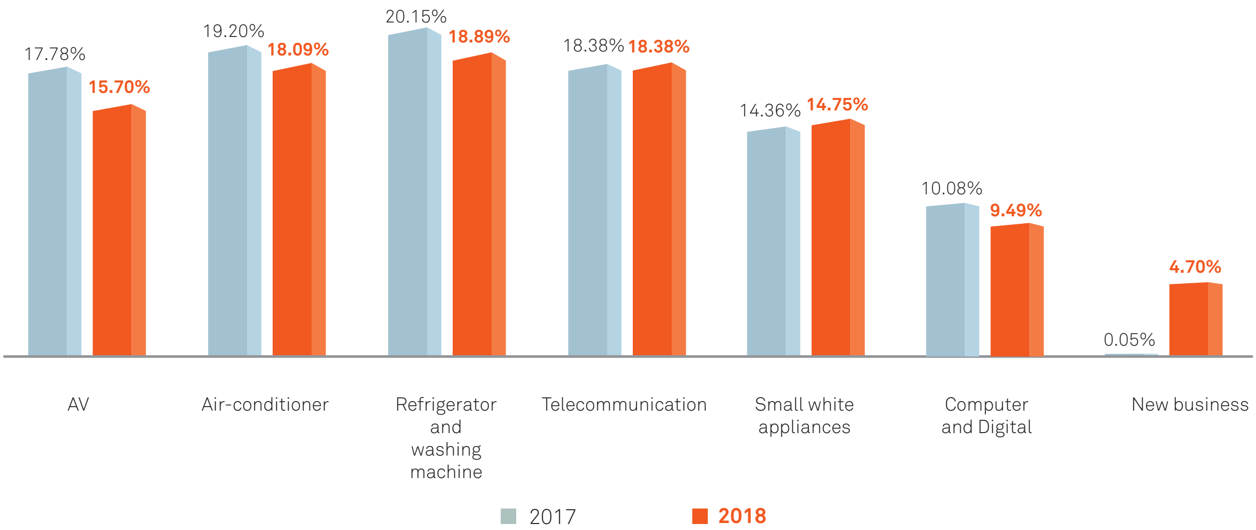
2018



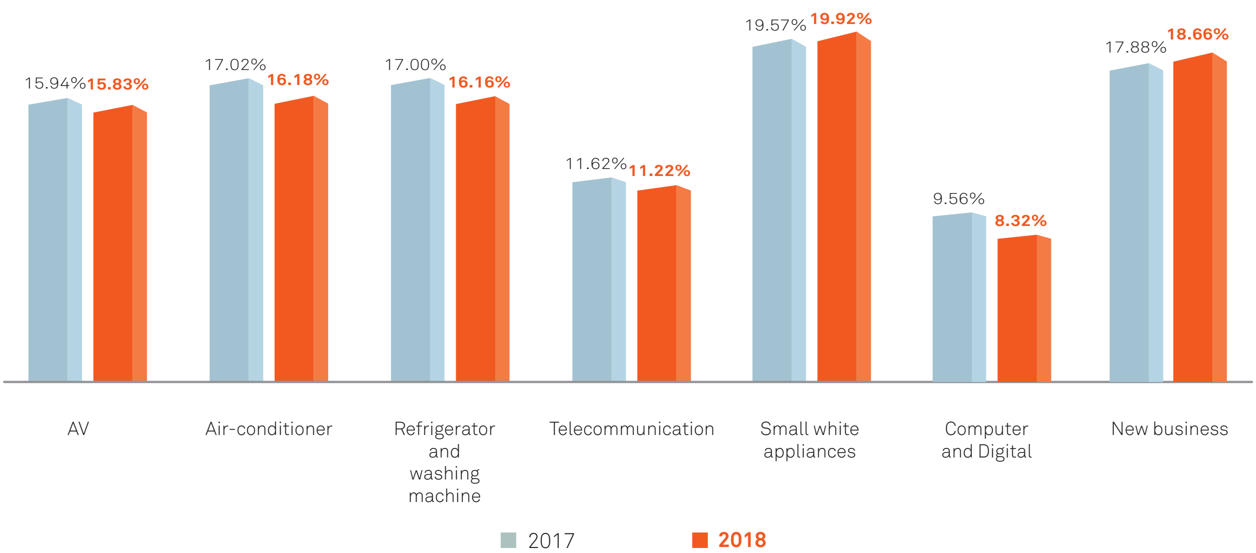
2017



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



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



Management Discussion and Analysis

Other income and gains

During the Reporting Period, the Group recorded other income and gains of approximately RMB1,070 million, representing a decrease of 46.82% as compared with RMB2,012 million in 2017. The reduction in other income and gains was mainly due to the Group have adopted IFRS15 in 2018. Upon adoption of IFRS15, income from suppliers with no distinct performance obligation identified was reclassified from other income to deduction of cost of sales. The reclassified amount in 2018 was approximately RMB288 million. In addition, no gains on equity investments at fair value through profit or loss was recorded during the Reporting Period, as compared with gains of RMB214 million for the corresponding period last year.

Summary of other income and gains:

	2018	2017
As a percentage of sales revenue:		
Income from suppliers, net	**–**	0.60%
Income from installation	**0.18%**	0.27%
Gross rental income	**0.41%**	0.34%
Government grants	**0.16%**	0.21%
Other service fee income	**0.51%**	0.50%
Gains on equity investments at fair value through profit or loss	**–**	0.30%
Others	**0.40%**	0.59%
Total	**1.66%**	2.81%

Consolidated gross profit margin

During the Reporting Period, with the decrease in the gross profit margin and other income and gains margin, the Group's consolidated gross profit margin decreased by 1.46 percentage points from 18.26% for the corresponding period last year to 16.80%, and it still maintained at a high level for the the industry.

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

Operating expenses

During the Reporting Period, the Group's total operating expenses (including selling and distribution expenses, administrative expenses and other expenses) were approximately RMB15,446 million as compared with RMB13,449 million for the corresponding period last year. The expenses ratio was approximately 24.00%, up by 5.21 percentage points as compared with 18.79% for the corresponding period in 2017. The increase in the operating expenses, among others, was mainly due to the increase in the non-operating items as further discussed in the paragraph headed "other expenses" below.

Management Discussion and Analysis

Summary of operating expenses:

	2018	2017
As a percentage of sales revenue:		
Selling and distribution expenses	**15.08%**	13.41%
Administrative expenses	**4.01%**	3.24%
Other expenses	**4.91%**	2.14%
Total	**24.00%**	18.79%

Selling and distribution expenses

During the Reporting Period, the Group's total selling and distribution expenses increased slightly by 1.18% from RMB9,595 million in the corresponding period last year to approximately RMB9,708 million. The selling and distribution expenses ratio was 15.08%, increased by 1.67 percentage points as compared with 13.41% for the corresponding period in 2017. The increase in selling and distribution expenses ratio was mainly due to the rental expenses as a percentage of sales revenue increased by 0.59 percentage point from 5.77% in the corresponding period last year to 6.36%, the salaries as a percentage of sales revenue increased by 0.40 percentage point from 3.32% in the corresponding period last year to 3.72%, and the advertising expenses as a percentage of sales revenue increased by 0.33 percentage point from 1.27% in the corresponding period last year to 1.60%. Overall, the Group's selling and distribution expenses ratio increased as a result of decrease in the sales revenue, however the amount of expenses still remained at a relatively stable level.

Summary of selling and distribution expenses:

	2018	2017
As a percentage of sales revenue:		
Rental	**6.36%**	5.77%
Salaries	**3.72%**	3.32%
Utility charges	**0.95%**	0.86%
Advertising expenses	**1.60%**	1.27%
Delivery expenses	**1.07%**	0.93%
Others	**1.38%**	1.26%
Total	**15.08%**	13.41%

Administrative expenses

During the Reporting Period, the Group's administrative expenses were approximately RMB2,583 million, higher than that of RMB2,322 million for the corresponding period in 2017 by 11.24%. The expenses ratio was 4.01%, increased by 0.77 percentage point as compared with 3.24% for the corresponding period in 2017, mainly due to the Group increased expenses on research and development to upgrade the GOME APP and ME Shop (Shenzhou Middle-end Data Platform Project), enhance its application on big data and the management function of the information system during the year. The Group has always strive to strengthen its control over administrative expenses in order to maintain its expenses ratio at a relatively low level in the industry.

Other expenses

During the Reporting Period, other expenses of the Group mainly comprised, among others, business tax, bank charges, impairment losses on goodwill and impairment losses on property and equipment, which increased from RMB1,531 million for the corresponding period in 2017 to approximately RMB3,155 million. The increase was mainly due to the impairment losses on goodwill and property and equipment for the Group's under-performing businesses amounted to approximately RMB2,185 million and RMB88 million, respectively. As a result, the other expenses over revenue ratio was approximately 4.91%, up 2.77 percentage points as compared with 2.14% for the corresponding period in 2017.

Management Discussion and Analysis

(1) Impairment loss on goodwill of Artway Group

On 31 March 2016, the Group acquired 100% of the equity interests of Artway Development Limited and its subsidiaries (the "Artway Group"), a non-listed group principally engaged in the retail sale of electrical appliances and consumer electronic products under the trademark "GOME Electrical Appliances" and related operations mainly in cities other than the designated cities in the PRC which the Group already operates. A goodwill of approximately RMB6,988 million was recorded upon acquisition. According to the Listing Rules, the acquisition constitutes a major and connected transaction for the Company which requires the approval of the independent shareholders. Independent shareholders of the Company approved such acquisition at the special general meeting of the Company held on 22 January 2016.

As of 31 March 2016, Artway Group's 556 stores were primarily located in regions distinct from the Group, which were highly complementary to the Group's existing retail store network and supported the expansion of the Group's business into lower-tier cities. The acquisition strengthened the Group's leading position in the retail market of electrical appliances and consumer electronic products in the PRC, and further captured the growing potentials of the industry.

Upon the acquisition, the Group's regional layout was strengthened. Artway Group has achieved outstanding results in 2016. In 2017, the performance of the stores of Artway Group still met expectations under the impact of e-commerce competition. In 2018, the Group continued to promote its "Home • Living" strategy and the integration of its online and offline businesses. During the course of the strategic transformation, the Group was adversely affected by the turmoil in the macro market environment and multiple impacts of e-commerce competition, resulting in a 10.09% decrease in overall sales of the Group. Of which, sales from Artway Group's stores recorded a year-on-year decrease of 8.8% and the operating profit decreased by 89%. The Group optimized the stores network of Artway Group and closed certain underperformed stores and the number of original Artway Group's stores decreased from 556 in 2016 to 517 at the end of 2018. Upon the completion of various optimization works, the management made corresponding adjustments to the future outlook based on the whole year performance of the Artway Group in the fourth quarter of 2018, and performed impairment testing according to the requirement of IAS 36 with the recoverable amount lower than the carrying amount. As a result, impairment loss in the amount of approximately RMB978 million was recognized in the fiscal year ended 31 December 2018.

Going forward, one of the strategic focuses of the Artway Group is to continue the expansion of its store network in the third- to sixth-tier cities in which the development of internet is relatively lagging behind with less impact being made by e-commence.

Management Discussion and Analysis

(2) Impairment loss on goodwill of China Paradise

The financial statements of China Paradise Electronics Retail Limited ("China Paradise") has been consolidated to the Group since 2006. Through a series of acquisitions, the Group completed the acquisition of the entire equity interest of China Paradise in 2009 and a goodwill of approximately RMB3,920 million was recorded upon the completion of the acquisition. According to the Listing Rules, the acquisition constitutes a major transaction for the Group which requires the approval of the shareholders of the Company. Shareholders of the Company approved such acquisition at the special general meeting of the Company held on 18 September 2006.

The principal activity of China Paradise is the retailing of electrical appliances and consumer electronic products in the PRC. China Paradise has grown to become one of the top three electrical appliances retail chain operators in China in 2005, with a market leading position in Shanghai in terms of sales. The purpose of the acquisition of China Paradise was to expand the scale of the Group and to become a leader in the retail market with strongholds in key regions including both Beijing and Shanghai. 181 stores of China Paradise have been added to the Group at the end of 2006.

The acquisition of China Paradise is an important initiative of establishing the Group to become a market leader in the electrical appliance retail market in China and China Paradise has been in sound operation for more than 10 years. The key coverage area of China Paradise is the first-tier cities especially in the Shanghai region. However, first-tier cities were significantly affected by the e-commerce and the sales of China Paradise's stores recorded a year-on-year decrease of 23.2% with operating profit decreased by 48.2% in 2018. The Group also optimized the store network of China Paradise and closed 14 underperformed stores in 2018. Upon the completion of various optimization works, the management made corresponding adjustments to the future outlook based on the whole year performance of the China Paradise in the fourth quarter of 2018, and performed impairment testing according to the requirement of IAS 36 with the recoverable amount lower than the carrying amount. As a result, impairment loss in the amount of approximately RMB1,207 million was recognized in the fiscal year ended 31 December 2018.

Going forward, adhering to the Group's transformation strategy, China Paradise will enhance its large-scale integrated flagship stores in the first- and second-tier cities as well as expanding its store network into third- to sixth-tier cities.

Management Discussion and Analysis

(3) Impairment losses on property and equipment

As mentioned above, the Group's strategic transformation process was adversely affected by the macro-economic environment turmoil and the diversity impact of e-commerce, resulting in a decline in overall revenue and a loss incurred by the Group in 2018. In the fourth quarter of 2018, the management adjusted the outlook for some of the underperforming business units, mainly due to the unsatisfactory performance of the Artway Group and China Paradise as discussed above, the Group's impairment test conducted in accordance with IAS 36 indicates that the recoverable amount of some of the store's leasehold improvements are lower than the carrying amount. Accordingly, impairment losses of approximately RMB88 million was recognized in 2018.

The Group has engaged an independent external valuer to prepare the valuation report for the Artway Group and China Paradise. The key parameters used in the valuation are as follows: the discount rate applied to the cash flow projections was 12.8%. The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3%. Details of the impairment losses on goodwill are set out in note 3 and note 15 to the financial statements.

Loss before finance (costs)/income and tax

As a result of the decrease in revenue and hence the decrease in consolidated gross profit, while non-operating expenses such as impairment losses on goodwill increased, the Group recorded a loss before finance (costs)/income and tax amounted to approximately RMB4,894 million, as compared with a loss of RMB402 million for the corresponding period last year.

Net finance (costs)/income

During the Reporting Period, the Group's net finance costs (finance income less finance costs) were approximately RMB520 million, increased by 30.98% as compared with a net finance costs of RMB397 million in 2017, mainly due to the Group increased its interest-bearing bank loans and other borrowings from RMB3,122 million as at end of 2017 to approximately RMB12,129 million as at 31 December 2018 in order to maintain strong capital and promote its "Home • Living" strategy. As a result, the finance costs increased from RMB692 million in the corresponding period last year to approximately RMB861 million.

Loss before tax

As a result of the above factors, during the Reporting Period, the Group recorded a loss before tax of approximately RMB5,414 million, as compared with a loss of RMB799 million in 2017.

Income tax expense

During the Reporting Period, the Group's income tax expense decreased from RMB329 million in 2017 to approximately RMB80 million as a result of increase in loss before tax. The management considers the effective tax rate applied to the companies of the Group for the Reporting Period is reasonable.

Loss for the year and loss per share attributable to owners of the parent

During the Reporting Period, the loss attributable to the owners of the parent was approximately RMB4,887 million as compared with a loss of RMB450 million for the corresponding period last year.

During the Reporting Period, the Group's basic loss per share were RMB23.7 fen, as compared with RMB2.1 fen for the corresponding period last year.

Cash and cash equivalents

As at the end of the Reporting Period, the Group had sufficient capital. Cash and cash equivalents held by the Group were approximately RMB10,143 million, which were mainly denominated in Renminbi and the rest in US dollars, HK dollars and other currencies, and representing an increase of 9.73% as compared with RMB9,244 million as at the end of 2017. The increase was mainly attributable to the net cash flows generated from the Group's investing activities during the year which amounted to approximately RMB1,306 million.

Inventories

As at the end of the Reporting Period, the Group's inventories amounted to approximately RMB8,221 million, representing a decrease of 26.96% as compared with RMB11,255 million as at the end of 2017. The inventory turnover period decreased by 4 days from 69 days in 2017 to 65 days in 2018. The decrease in inventories was mainly attributable to the Group's large-scale promotion activities at the end of 2018 and the accelerated frequency of procurement and settlement by the Group with its suppliers during the Reporting Period, which also improved the efficiency of inventory turnover.

Prepayments, other receivables and other assets

As at the end of the Reporting Period, prepayments, other receivables and other assets of the Group amounted to approximately RMB5,808 million, increased by 14.94% from RMB5,053 million as at the end of 2017. Prepayments are mainly for general operating needs, including, among others, the prepaid rentals for the stores and offices amounted to approximately RMB1,238 million and advances to suppliers amounted to approximately RMB2,100 million.

Trade and bills payables

As at the end of the Reporting Period, trade and bills payables of the Group amounted to approximately RMB21,350 million, decreased by 6.52% from RMB22,839 million as at the end of 2017. Trade and bills payables turnover days were approximately 148 days, increased by 7 days from 141 days in 2017.

Capital expenditure

During the Reporting Period, the capital expenditure incurred by the Group amounted to approximately RMB1,040 million, remained flat as compared with RMB1,039 million in 2017. The capital expenditure during the year was mainly for opening of new stores, remodelling of stores, development of logistic centers and upgrading the information system of the Group.

Cash flows

During the Reporting Period, the Group's net cash flows used in operating activities amounted to approximately RMB1,068 million, as compared with RMB1,156 million used in 2017. The decrease in cash outflows was mainly due to, among others, the decrease in inventories.

Mainly due to the Group sold most of its financial assets at fair value through profit or loss bought in precious years for a net cash inflow of approximately RMB2,677 million during the year, the Group's net cash flows generated from investing activities amounted to approximately RMB1,306 million, as compared with RMB5,575 million used in 2017.

The Group's net cash flows generated from financing activities amounted to approximately RMB515 million as compared with RMB2,816 million generated in 2017. The net cash inflows this year was mainly attributable to the increase in net proceeds from the bank loans amounted to approximately RMB9,027 million, less the repayment of corporate bonds amounted to approximately RMB4,027 million, payment for pledged deposits for bank loans amounted to approximately RMB3,458 million and interest paid amounted to approximately RMB942 million.

Management Discussion and Analysis

Dividend and dividend policy

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 so as to preserve capital for the funding needs of the Group.

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

Contingent liabilities and capital commitment

At the end of the Reporting Period, the Group has no material contingent liabilities, while there were capital commitments of approximately RMB1,040 million.

Foreign currencies and treasury policy

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

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

Financial resources and gearing ratio

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

As at 31 December 2018, the total borrowings of the Group comprised interest-bearing bank loans, loans due to related companies, corporate bonds and overseas bonds.

The current interest-bearing bank loans comprised:

1) a bank loan of approximately EUR259 million (equivalent to approximately RMB2,033 million) bearing interest at floating rate;

2) a bank loan of approximately US$244 million (equivalent to approximately RMB1,674 million) bearing interest at floating rate;

3) a loan of approximately HK$350 million (equivalent to approximately RMB307 million) bearing interest at floating rate;

4) bank loans of approximately EUR22 million (equivalent to approximately RMB172 million) bearing interest at fixed rates;

5) bank loans of approximately RMB620 million bearing interest at floating rates;

6) bank loans of approximately RMB653 million bearing interests at floating rates;

7) discount of bills receivables from various banks with carrying amount of approximately RMB5,926 million bearing interests at fixed rates;

8) discount of trade receivables from various banks with carrying amount of approximately RMB420 million bearing interests at fixed rates; and

9) a bank loan of approximately JPY50 million (equivalent to approximately RMB3 million) bearing interest at a fixed rate.

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

The non-current interest-bearing bank loans comprised:

(1) A bank loan of approximately RMB18 million, bearing interest at floating rate and repayable in the second year;

(2) A bank loan of approximately RMB93 million, bearing interest at floating rate and repayable in the fifth year; and

(3) A bank loan of approximately RMB211 million, bearing interest at floating rate and repayable beyond 5 years.

The loans due to related companies comprised:

Loans amounted to approximately RMB1,672 million in aggregate, bearing interest at a fixed rate and repayable within 3 years.

The corporate bonds comprised:

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

(2) corporate bonds issued in 2018 with an aggregate nominal value of RMB600 million issued at a fixed coupon rate of 7.8% per annum with duration of 6 years, the Group shall be entitled to adjust the coupon rate and the investors shall be entitled to sell the outstanding bonds back to the Group at the end of the second and fourth year.

The overseas bonds comprised:

Bonds issued in 2017 with an aggregate principal amount of US$500 million and with 5% coupon rate due 2020. The outstanding balance of the overseas bonds as at 31 December 2018 was US$496 million.

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

As at 31 December 2018, the Group's debt to total equity ratio, which was expressed as a percentage of total borrowings amounting to approximately RMB22,728 million over total equity amounting to approximately RMB11,084 million, increased from 96.45% as at 31 December 2017 to 205.05%. The debt ratio was 37.42% as compared with 26.74% as at 31 December 2017, which was expressed as a percentage of total borrowings over total assets amounting to approximately RMB60,742 million.

Charge on group assets

As at the end of 2018, the Group's bills payables and interest-bearing bank loans and other borrowings were secured by the Group's time deposits amounting to approximately RMB10,608 million, certain buildings and investment properties of the Group with a carrying value of approximately RMB1,883 million, the Group's financial assets with a carrying amount of approximately RMB812 million and prepaid land lease payments with carrying amount of approximately RMB1,137 million. The Group's bills payables and interest-bearing bank loans and other borrowings amounted to approximately RMB27,524 million in total.

Management Discussion and Analysis

OUTLOOK AND PROSPECTS

Enhancing store network

Looking forward, GOME will continue to focus on major large-scale integrated flagship store projects in the first- and second-tier cities in an effort to provide one-stop comprehensive household solution, from home appliance to decoration, construction and household services. The Group expects to open 16 large-scale integrated flagship stores and 200 home decoration materials and home furnishing in-store shops in 2019. GOME will step up the output of its supply chain service in the third- to sixth-tier cities to achieve swift development of store coverage in county-level cities, with an emphasis on franchising. It is expected that 500 franchise retail stores and 200 self-operating county-level stores will be opened in 2019. The Group's operational capital expenditure for 2019 is expected to be approximately RMB600 million to RMB800 million.

Focusing on new businesses to become comprehensive solutions provider

From product to service, GOME provides comprehensive solutions ranging from home decoration, integrated cabinets and electrical appliances, cozy home (central air-conditioning, heating and ventilation, etc.) and kitchen product showcases. The Group has had strategic partnerships with top brands of kitchen cabinets and expects more than 100 stores to be equipped with integrated cabinet service in 2019. In addition, GOME is also running its own integrated cabinet business in order to provide integrated professional kitchen services by integrating the cabinet business with GOME's expertise in home appliances.

Empowered with interconnected smart home appliances, big data and internet of things (IoT) systems, GOME is also offering open comprehensive solutions for smart living.

Increase service GMV and achieve full product life-cycle service

Pertaining to the transformation into the "Home•Living" service provider, GOME will continue to construct a comprehensive service system through the commoditization of services, professionalization of service teams and full life-cycle services, providing our customers with hassle-free experiences. GOME's service products covered a wide variety of categories such as appliance installation, cleaning, repair and recycling. GOME will also continue to provide enhanced experiences to customers with "Installations with Delivery," "bulk delivery for packaged products," "same-day delivery" in the first-tier cities, "next-day delivery" for county-level cities, "money back for late delivery" and so on.

Rich potential in retail market

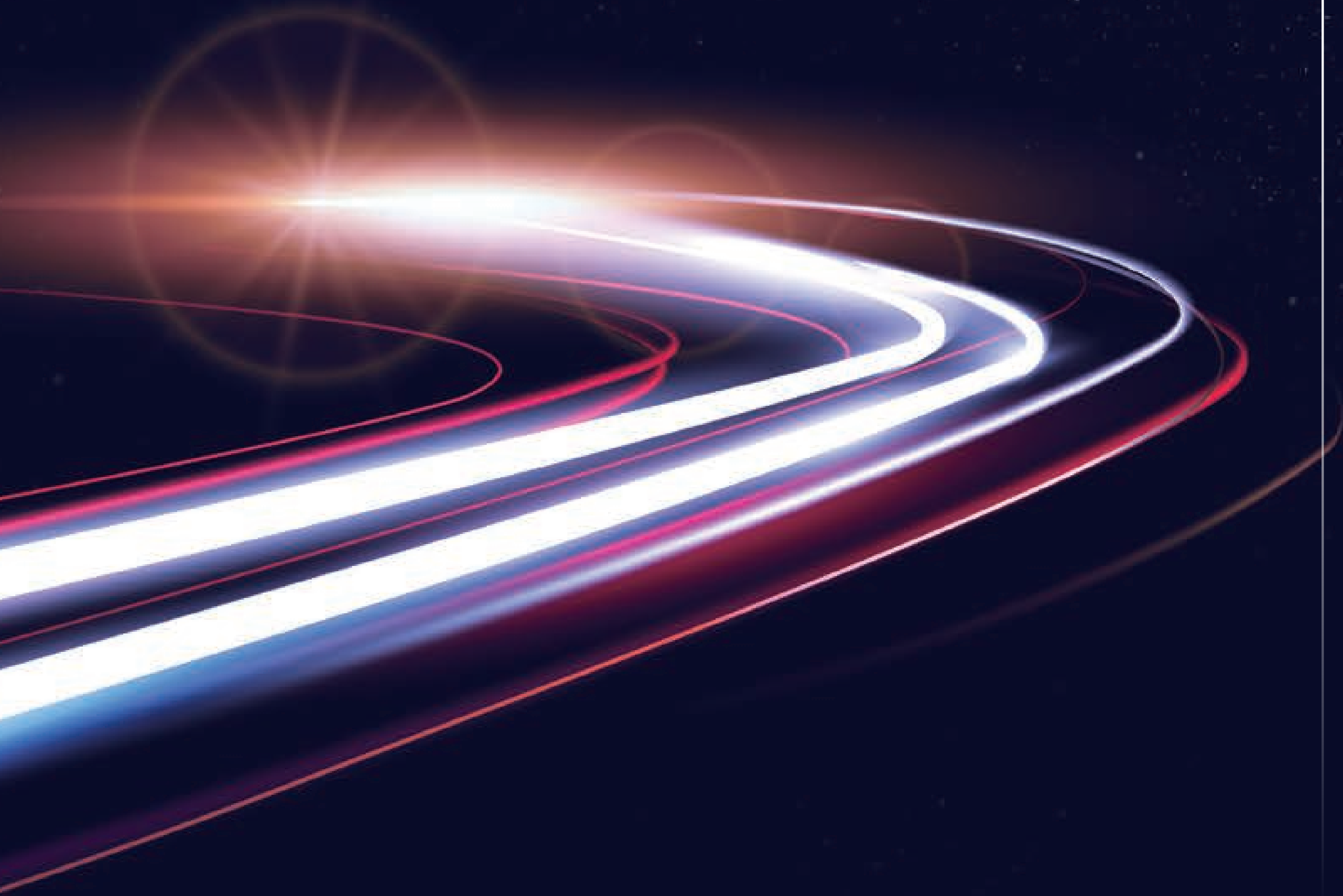
Going forward, it will become a norm for the retail industry to be data-driven and apply technology in its operations. On the back of consumption upgrade, the industry prepares for the advent of a new era of consumption. New business opportunities will emerge with the rise of new consumer groups, uncovering the consumption potential of third- to sixth-tier cities, together with the continued rapid development of business infrastructure and the Internet. Moreover, the potential of the retail industry further expands with supportive state policies for private enterprises, subsidies for home appliance spending and the innovation of retail technology along with 5G developments.



音乐空间

vivo

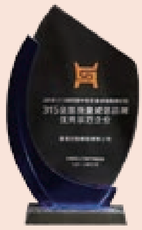
Pertaining to the transformation into the "Home•Living" service provider, GOME will continue to construct a comprehensive service system through the commoditization of services, professionalization of service teams and full lifecycle services, providing our customers with hassle-free experiences.



Highlights of the Year

01

- GOME was award the "Best Integrated e-Commerce Retailer For the Year"by the Mobile Internet Marketing Summit 2017.



03

- GOME was award the "National Good Faith Brand Superior Demonstration Enterprise in Quality" in the "3.15 Fourth Forum of Good Faith Brand in Quality in China".

05

- Leveraging on its most valuable brand over the past 31 years, GOME was named on the 2018 China listed company brand value TOP100 total value list and TOP50 private enterprises in China.
- GOME ranked second on the list of "2017 China top 100 chain stores" issued by China Chain Store & Franchise Association.

06

- At the 13th China Retailers Convention & Exhibition held in Chongqing, GOME was awarded the "Outstanding Enterprise in Corporate Social Responsibility 2018" for its actively exploration in the retail industry, the performance in the transformation to a new retail business and the assumption of social responsibility in facilitating social and economic development over the years.

- Updated version of ME Shop went online. In July, GOME launched the ME Shop Offer Day and achieved 50,000 sales orders. It also launched the "Free purchase for grouping hundred buyers" which was its core event, making it a renowned event in the industry. In September, it launched the sales services on Wechat mini program and the marketing event of "Group-buying for various types of products". In December, ME Shop Offer Day received over 400,000 sales orders in a single day.

07

- “Shen Zhou” project, the middle-end system of GOME, was officially launched. The project aims at enhancing consumers experience and integrate online shopping with offline experiences, which is an important breakthrough in the retail technologies. The launch of “Shen Zhou” project affects the purchasing behavior of the consumers, while empowering GOME to establish the shared retail function in aspects like user traffic, data, experience, scenarios, efficiency and staffing.

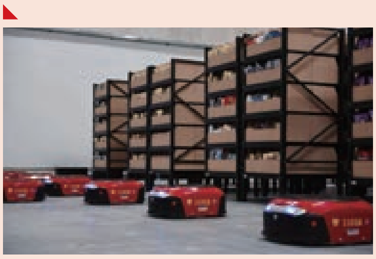
08

- GOME has entered into strategic cooperation with Oppein, ZBOM and Goldenhome, which marked the introduction of kitchen cabinet to all of GOME’s stores in the PRC. Through the establishment of the integrated “Home • Living” experience store in the cooperation with these companies and provision of comprehensive home decoration solutions, GOME added more details in the implementation of its “Home • Living”strategy, which accelerated the development of the new business under its new retail strategy.

- GOME officially announced the use of the AGV robotic warehouses in Guangzhou and Tianjin. Currently, more than a hundred intelligent robot are deployed at these two warehouses. In terms of average efficiency of picking goods, robots perform better than human by nearly 270%.

- Following the commencement of operation of Black Swan lifestyle store at Central Avenue, Harbin, GOME has expanded its network of large-scale integrated flagship stores to Harbin, Tianjin, Chengdu, Chongqing, Guangzhou, Shanghai and Xi’an, covering regions throughout China. Under the guidance of “Home • Living” strategy, GOME has been creating one-stop shopping experience for the consumers vigorously.

- The China E-Commerce Alliance of Poverty Alleviation was established in Beijing. As a founding member of the Alliance, GOME was elected as the president of the E-Commerce Alliance of Poverty Alleviation.



Highlights of the Year

09

- GOME has entered into a strategic agreement with Ouyada, pursuant to which the parties will work together to establish the experience stores of packaged home electrical appliances of GOME at all superior stores of Ouyada. Leveraging the advantages of each other in terms of resources, which will enhance the business developments of both parties.

10

- GOME entered into a strategic cooperation with Red Star Macalline, pursuant to which GOME has developed its network in areas of Hubei and Sichuan. GOME has further implemented its strategy of "Home • Living" and provided customers with quality products and new experiences.

- GOME Retail Holdings Limited was awarded the "Top HK Stock Connect Company in Investment Return" in the First Gold Wing Award Event organized by Securities Times. GOME was the only winning enterprise within the integrated retail industry.

- Following the launch of its flagship store on Pinduoduo, GOME became one of the key brands of Pingduoduo. The introduction of GOME will provide ancillary services including genuine goods, logistic services and after-sales services to users of Pingduoduo.

11

- GOME entered into a strategic cooperation with Easyhome to provide "integrated household and home appliance" solutions by combining the display and sale of household products and home appliances.

- The first 11 "in-store shops" jointly established by GOME and Carrefour (China) were opened in Beijing, Shanghai, Wuxi and Hangzhou etc. A new and unprecedented "resource sharing and scenario blending" business model was created by both parties.

- With its operating strength and active exploration in the retail industry, GOME participated in the "CCFA New Consumption Forum – 2018 China National Retail Congress" held by China Chain Store & Franchise Association and was awarded two major trophies, the "Reform and Opening of China for 40 Years Ever Green Award for Chain Store Enterprise" and "2018 Employee's Most Favourite Enterprise Award".

Highlights of the Year

12

- Shandong Zibo Shanghe Zhengda Electric Appliances New Retail Store, the first franchise store of GOME, was opened, showing the rapid market expansion of GOME into third to sixth tier regions with its business model of self-operated county stores + franchise stores.

- The "Buy and Donate" education aid programme jointly launched by GOME and China Foundation For Poverty Alleviation has donated over RMB1.61 million, renovated and built 10 primary schools in poverty mountain areas and helped more than 10,600 students.

- GOME was awarded the "2018 Top 10 E-commerce Brand of National Public Resources Trading" (2018年度全國公共資源交易十佳電商品牌) in The Third Annual Directors Meeting of China Public Resources Trading Inter-Regional Cooperation Alliance cum Awards Ceremony of Top 100 National Public Resource Trading Companies (第三屆中國公共資源交易跨區域合作聯盟主任年會暨全國公共資源交易機構百強頒獎盛典).

- Aiming at enhance service quality, GOME's "Beidou Project" was formally launched. "Beidou Project" is intended to upgrade consumer service experience comprehensively by improving service efficiency, upgrading professional level and enhancing supervision mechanism, which built another milestone of GOME's "Triple New" initiative of "New Business, New Market, New Technology".

- GOME entered into strategic cooperations with Bank of Guangzhou, Bank of Dalian, Agricultural Bank of China and Nanyang Commercial Bank. They will cooperate with GOME comprehensively in areas such as traditional credit, trade finance, investment banking and asset management, international settlement, cash management and retail financial services to support further implementation of GOME's strategies.

Directors and Senior Management Profile

CHAIRMAN

Mr. ZHANG Da Zhong

Mr. ZHANG Da Zhong, aged 70, has been the Chairman and non-executive Director of the Company since 10 March 2011. Mr. Zhang was the founder of Beijing Dazhong Home Appliances Retail Co., Ltd. one of the leading domestic appliances retail chains in Mainland China. Mr. Zhang sold all of his interests in Beijing Dazhong Home Appliances Retail Co., Ltd. in late 2007 and established Beijing Dazhong Investment Co. Ltd., a company that engages primarily in private equity investment in which he is currently the president. Mr. Zhang was honored as China's Outstanding Private Entrepreneur (中國優秀民營企業家) and Outstanding Builder of Chinese Featured Socialism (優秀中國特色社會主義事業建設者), and was a member of the 8th Chinese People's Political Consultative Conference of Beijing, a member of the standing committee for both the 9th and 10th Chinese People's Political Consultative Conference of Beijing, a member of the standing committee of the 13th Beijing People's Congress and the former deputy chairman of the Beijing Commerce Federation (北京市商會).

EXECUTIVE DIRECTOR

Mr. ZOU Xiao Chun

Mr. ZOU Xiao Chun, aged 49, has been an executive Director of the Company since 17 December 2010. Mr. Zou was the Vice President and the Senior Vice President of the Group from 17 December 2010 to 31 December 2013, mainly responsible for the Chinese legal and compliance matters and other deal-specific projects of the Group and is also a director of various subsidiaries of the Company.

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

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

In addition, Mr. Zou founded Jiandao Zhongchuang Investment Company Limited (簡道眾創投資股份有限公司) (the manager of a private equity investment fund in the PRC) and was the chairman of the company in August 2014, when he also founded the Beijing YiPing Capital Management Co., Limited (北京逸品資本管理有限公司) (the manager of a private security investment fund in the PRC) and was an executive director of the company. He has been the chairman of UoneNet Technology (Beijing) Co., Ltd. (優萬科技(北京)股份有限公司(a company listed on the New Third Board) from January 2016 to December 2018.

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

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS

Ms. HUANG Xiu Hong

Ms. HUANG Xiu Hong, aged 46, has been a non-executive Director of the Company since 24 June 2015. Ms. Huang has been working at GOME since 1991 and was appointed as the general manager in Eastern China Region since 2005; from 2009 to 2016, she has been the president of the GOME Holding Group Company Limited and from 2009 up to now, she has been the president of Pengrun Holdings Limited (鵬潤控股有限公司). Ms. Huang has obtained her MBA degree from Helsinki School of Economics in 2005, and she is now pursuing further education in financial EMBA in Tsinghua University PBC School of Finance. In 2007, Ms. Huang was honored the Top Ten Outstanding Youth in Retail Industry of Shanghai and a torchbearer of the Beijing Olympic Games in 2008; in 2009, she received the nomination title of Outstanding Business Woman of China conferred by All-China Women's Federation together with China General Chamber of Commerce; from 2012 to 2015, she was consecutively awarded The Most Influential Business Woman in China. Besides, Ms. Huang was recognized as The Significant Contributor in Building National Corporation Culture in 2012, Person of Asia Brand of 2013, etc. Previously she served as the member of Beijing Federation of Industry & Commerce and currently she serves as the deputy chairman of both China Enterprise Confederation and China General Chamber of Commerce. Ms. Huang is a sister of Mr. Wong. Ms. Huang has been a director of Beijing Centergate Technologies (Holdings) Co., Limited (a company listed on the Shenzhen Stock Exchange) since December 2009, among which she was the Acting Chairman of the company from March 2014 to May 2014.

Mr. YU Sing Wong

Mr. YU Sing Wong, aged 67, has been a non-executive Director of the Company since 24 June 2015. Mr. Yu has been the president of No. 9 Real Estate Company Limited (玖號置業有限公司) under GOME Holding Group (國美控股集團) since 2013, primarily responsible for the development and construction of No. 9 Shopping Plaza (玖號購物廣場) in Xiangjiang, Changsha, Hunan. From 2003 to 2012, Mr. Yu was the president of Beijing Xinhengji Investment and Management Group (北京新恒基投資管理集團), mainly in charge of the development and construction of the Xinhengji First City Project (新恒基第一城項目) in Shenyang, with an area of 1,000,000 square meters. From 2000 to 2002, he served as the general manager of Beijing Pengrun Real Estate Development Company Limited (北京鵬潤房地產開發有限公司), responsible for the development and construction of the Pengrun Garden Project (鵬潤家園項目). From 1992 to 2000, he was the vice president of Xinhengji Real Estate Development Company Limited (新恒基房地產開發有限公司), responsible for the development and construction of various projects, such as Xinhengji International Building (新恒基國際大廈), Pengrun Building (鵬潤大廈) and Jing An Centre (靜安中心). Before that, Mr. Yu was an assistant manager of a materials company in Luohu, Shenzhen from 1984 to 1991 and was a cadre of the office of machine tool station of the Ministry of First Machinery Industry (第一機械工業部機床總站) from 1973 to 1984.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Kong Wai, Conway, aged 64, has been an independent non-executive Director of the Company since 10 March 2011. Mr. Lee received a bachelor's degree in arts from the Kingston University (formerly known as the Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from the Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young for 29 years until 2009 and had held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia and New Zealand, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants.

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

Mr. LEE Kong Wai, Conway

Directors and Senior Management Profile

Ms. LIU Hong Yu

Ms. LIU Hong Yu, aged 55, has been an independent non-executive Director of the Company since 10 June 2013. Ms. Liu is a Chinese practising lawyer. Ms. Liu is the founding partner of Beijing Jincheng Tongda and Neal. Prior to that, Ms. Liu was the managing partner of Beijing Tongda Law Offices between April 1993 and April 2004, the legal adviser to Agricultural Bank of China (Beijing Branch) between May 1988 and April 1993 and a cadre of the People's Bank of China (Sichuan Province) between July 1985 and May 1988.

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

Ms. Liu was a member of the National Committee of the 11th, 12th Chinese People's Political Consultative Conference, a deputy to the 12th, 13th and 14th Beijing Municipal People's Congress and an executive member of the executive committee to the 11th China Feminine Congress, and is currently a member of the National Committee of the 13th Chinese People's Political Consultative Conference, a deputy to the 15th Beijing Municipal People's Congress and an executive member of the executive committee to the 12th China Feminine Congress. Ms. Liu is also a member of the 9th All-China Youth Federation, an executive member of the All China Female Lawyers Association and a specially designated supervisory personnel of the Supreme People's Court.

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

Mr. WANG Gao

Mr. WANG Gao, aged 53, has been an independent non-executive Director of the Company since 24 June 2015. Mr. Wang was appointed as the professor of marketing and the associate dean (Trainings for Senior Managers) in China Europe International Business School and the joint director of The Research Center of Globalization of China Enterprises (中國企業全球化研究中心) since 2009. From 2002 to 2008, Mr. Wang was the associate professor and the deputy of the Marketing Department under School of Economics and Management of Tsinghua University; from 2001 to 2002, he was the manager of Strategy and Analysis Department of Minute Maid Branch under the Coca-Cola Company in Houston of the United States; from 1998 to 2001, he served as the senior consultant of The Information Resources Limited of the United States in Chicago. Mr. Wang acquired his bachelor degree in Demography from Renmin University of China in 1988, and he obtained his Master of Social Science and Doctor of Sociology both from Yale University in 1994 and 1998, respectively. Mr. Wang is an independent director of Anhui Gujing Distillery Company Limited and Canature Health Technology Group Co., Ltd (both companies listed on the Shenzhen Stock Exchange) since June 2014 and February 2018, respectively.

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

SENIOR MANAGEMENT

Mr. WANG Jun Zhou, aged 57, has been the President of the Group since 28 June 2010. He is also a director of various subsidiaries of the Company. Mr. Wang was the Executive Vice President of the Group during the period from November 2006 to June 2010 and an executive Director of the Company between December 2008 and June 2011. Mr. Wang is responsible for the overall management of daily operations, including the formulation of the Group's medium and long-term strategic plans and annual budgets as well as standardisation of various systems, processes and authorisations for the Group. Mr. Wang also assists in providing guidance and monitoring to the daily operations in each major region and each division of the Group as well as appraising and reviewing business management teams at all levels. Mr. Wang has over 10 years of experience in the sale and management of electrical appliances. Mr. Wang joined the Group in 2001 and previously held positions as general manager of the operations centre, general manager of the Southern China Region and general manager of the strategic and cooperation centre of the Group. In November 2014, Mr. Wang was awarded the China Chain Store & Franchise Association: Retail Person of the Year for 2014 (CCFA2014中國連鎖年度人物大獎) by the 16th China Retail Industry Convention. In July 2015, Mr. Wang was elected as the 10th Retail Person of the Year for 2014-2015, an award recognizing his contribution in leading the transformation and innovation of the Company for outstanding business results and substantial progress in 2014. In October 2015, Mr. Wang was awarded the title of Outstanding Person on Home Appliance for the Thirty Years in China (中國家電30年功勳人物獎) by China Household Electrical Appliances Association.In 2017, Mr. Wang was awarded Outstanding Industry Leader of the Year (年度最具行業領導力人物獎) by China Internet Weekly.

Mr. FANG Wei, aged 47, has been re-designated as the Chief Financial Officer of the Group since September 2011. He is also a director of certain subsidiaries of the Company. Mr. Fang is responsible for the overall planning and implementation of the Group's financial management as well as investments of the Group. Mr. Fang also participates in major decision making in relation to financing and operations of the Group. Mr. Fang is a graduate of the accounting faculty of Central University of Finance and Economics (中央財經大學會計系) and a holder of a master degree in management. He is qualified as a senior accountant and senior economist in China. He is also a fellow member of the Chartered Global Management Accountant (CGMA) association and a fellow member of Institute of Public Accountants (FIPA) of Australia. Mr. Fang joined the Group in January 2005, had held positions as assistant director and the director of the finance centre of the Group, and was granted the Special Contribution Award for Year 2011 and Contribution in Supporting New Business Award by the Group. Mr. Fang was named as the Talented Youth of Retail Sector in China for Year 2008 (2008年度中國零售業青年英才), Ten High-Profile Persons in Cash Management for Year 2012 (2012年現金管理十佳風雲人物), China's Top 10 Outstanding CFO of 2014 (2014年度中國十大傑出CFO), 2015 Finance Leader (2015年度財界領袖), 2015 Outstanding Global Finance Leader in China (2015年度中國國際財務卓越CFO人才獎), China Annual Figure as CFO in 2015 (2015中國CFO年度人物), Intelligent and Innovative Global Finance in China in 2017 – Outstanding Leader (2017年度中國國際財務智能化創新 — 卓越領航者) and Golden Horse Award of E-commerce Pioneer in China in 2017 (2017中國電子商務導師金馬獎), among others, due to his performance in financial management. Meanwhile, the team and projects led by Mr. Fang also received numerous awards, including the China Chamber of Commerce Science and Technology Award – Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎特等獎) for the ERP project under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程) with him being a core ERP project team leading member of GOME; as well as team awards including the Best Investor Relations Management Listed Company of the 2014 China Securities Golden Bauhinia Awards (2014中國證券金紫荊獎 — 最佳投資者關係管理上市公司大獎), the Best Investor Relations Award for 2014 and 2015 by Hong Kong Investor Relations Association, 2016 Best Investor Relations Management (最佳投資者關係管理) by Golden Hong Kong Securities Awards in 2016, the 2016 Best Practice of Shared Service Centre of the Year by CGMA, Best Investor Relationship – Meeting (最佳投資者關係會議獎) by Hong Kong Investor Association, Best Team of Intelligent and Innovative Global Finance in China in 2017 (2017年度中國國際財務智能化創新最佳團隊) by Chinese CFO Development Centre, Best Accounting Management in Practice in 2017 (2017年度優秀管理會計實踐) by CGMA in 2017 and the 2018 Best Listed Company at Investor Relations Management (最佳投資者關係管理上市公司) by Golden Hong Kong Securities Awards Voting in 2018. Mr. Fang is currently the chairman of the supervisory committee of GOME Telecom Equipment Co., Ltd (formerly known as Sanlian Commercial Co., Ltd) (a company listed on the Shanghai Stock Exchange).

Directors and Senior Management Profile

Ms. WEI Qiu Li, aged 51, Joined GOME in 2000. Ms. Wei had been the Vice President of the Group since November 2006 and was an executive Director of the Company between January 2009 and June 2011. Ms. Wei was appointed as the senior vice president of the Group in 2012. On 20 March 2018, she was appointed as the Chairman of the Decision-making Committee and is mainly responsible for the medium- to long-term strategic planning, standardisation of various policies, systems and authorisations, organisational structure designing as well as planning and implementation of human resources training of the Group. Ms. Wei has over 10 years of experience in human resources and administrative management. Ms. Wei obtained an Executive MBA (EMBA) from the China Europe International Business School (中歐國際工商學院) in 2013.

Mr. LI Jun Tao, aged 53, has been appointed as the Senior Vice President of the Group since March 2012. He is currently the Senior Vice President of GOME retail sector and is responsible for the operating system of the retail segment. Mr. Li has also been the CEO of GOME-on-line and the president of the R&D Smart Manufacturing segment. Mr. Li has assumed senior management roles in areas such as municipal, provincial, business and operation sectors of the Group and has extensive experience in the establishment, development and extension of the supply chain of the Group's online and offline businesses. He was awarded Top Ten Marketing Persons (十大營銷人物) organized by Southern Metropolis Daily in 2015. Mr. Li graduated from China Europe International Business School (中歐國際工商學院) with Executive MBA (EMBA).

Mr. HE Yang Qing, aged 56, has been appointed as the Chairman of the Executive Committee of the Company and concurrently serves as the President of the home services sector, and responsible for brand management and marketing matters. Mr. He joined the Group in 2003 and has been appointed as the Senior Vice President of the Group since the end of 2012, in charge of the operation and management of the first- and second-tier market operation centre, store network development centre, customer service centre, data centre and brand marketing centre previously, as well as serving as the COO of GOME-on-line. From June 2014 to June 2017, Mr. He has been a director and the chairman of the board of GOME Telecom Equipment Co., Ltd (formerly known as Sanlian Commercial Co. Ltd) (a company listed on the Shanghai Stock Exchange).

Mr. LV Yi Fan, aged 58, has been re-designated as the Vice President of the Group since March 2012, responsible for information technology system. Mr. Lv joined the Group in 2007, and held the position of director of information technology centre. The team and projects led by Mr. Lv also received numerous awards, including the China Chamber of Commerce Science and Technology Award – Grand Prize for 2012 (2012年度中國商業聯合會科學技術獎特等獎) for the ERP project under the Nationwide E-commerce Supply Chain Integration and Application (超大型連鎖零售電子商務一體化及高效供需鏈應用綜合系統工程) with him being a core ERP project team leading member of GOME. Under the leadership of Mr. Lv, the working team continued to optimize the information systems of the Group between 2013 and 2015. In 2016, the Research and Development Centre (Chengdu) and Chengdu GOME Big Data Technology Co., Ltd. (成都國美大數據科技有限公司) was established and put into operation, marking the gradual realization of independent research and development of information and service capabilities. In addition, the team led by Mr. Lv received the Innovation Award and the 2016 Outstanding Contribution Award from the Group. In the same year, the Group obtained 136 software copyright certificates with independent intellectual property rights with Mr. Lv's assistance. In 2017 and 2018, he won the CSUA Golden Dragon Sea Award (金龍出海獎) and the Golden Dragon Winner Award (金龍優勝獎) for the best projects by China SAP Users Association (CSUA) for two consecutive years. Mr. Lv graduated from the Business Administration Faculty of Capital University of Economics and Business (首都經濟貿易大學). He has a master degree in management and the technical title of senior engineer.

Report of the Directors

The board of directors (the "Directors") of the Company (the "Board") have pleasure in submitting its report and the audited financial statements of GOME Retail Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the operation and management of networks of retail stores for electrical appliances and consumer electronic products and online sale of electronic products in China. The Group's revenue is mainly derived from business activities in the Mainland China. An analysis of the Group's income for the year is set out in note 6 to the financial statements on pages 146 to 147.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss on page 79 and Consolidated Statement of Comprehensive Income on page 80.

The state of affairs of the Group as at 31 December 2018 is set out in the Consolidated Statement of Financial Position on pages 81 to 82.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 85 to 86.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 34 to the financial statements on page 181.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 so as to preserve capital for the funding needs of the Group.

ANNUAL GENERAL MEETING

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

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out in note 47 to the financial statements on page 207 and in the Consolidated Statement of Changes in Equity on pages 83 to 84.

As at 31 December 2018, the Company has a negative reserve of RMB762,533,000 available for distribution to the shareholders of the Company (2017: a negative reserve of RMB424,594,000) of which no final dividend has been recommended for the year.

PROPERTY, PLANT AND EQUIPMENT

The movements in property and equipment during the year are set out in note 13 to the financial statements on pages 155 to 156.

MAJOR SUPPLIERS AND CUSTOMERS

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

– the largest supplier	9.85%
– five largest suppliers combined	46.33%

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

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

DONATIONS

During the year, the Group has made charitable and other donations in Hong Kong and China totaling RMB3,550,000.

DIRECTORS

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

Executive Director

Mr. ZOU Xiao Chun

Non-Executive Directors

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

Independent Non-Executive Directors

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions which are disclosed in notes 5, 26, 42 and 46(iv) to the financial statements on page 145, pages 173, pages 188 to 191 and page 205, respectively and in the section headed "Connected Transactions" hereinbelow, there were no contracts of significance, to which any member of the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

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

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

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

Note:

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

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

Save as disclosed above, as at 31 December 2018, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the special general meeting of the Company held on 12 September 2018, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the Board may grant share options (the "Options") to subscribe for shares of the Company (the "Shares") to employees, executives and officers of the Group and such other persons as referred to in the Share Option Scheme whom the Board considers will contribute or have contributed to the Group (the "Participants") to provide them with incentives and rewards for their contribution to the Group (Note). No Options had been granted nor is outstanding pursuant to the Share Option Scheme since its adoption. Save for the Share Option Scheme, the Company has no other share option scheme.

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

Note: As at 29 March 2019, a maximum number of Shares available for issue under the Share Option Scheme was 2,155,762,742 Shares, representing approximately 10% of the issued share capital of the Company as at 29 March 2019.

The number of Shares in respect of which Options may be granted shall not exceed 10% of the Shares in issue on date of adoption of the Share Option Scheme. Unless otherwise approved by the shareholders of the Company in general meeting, the number of Shares in respect of which Options may be granted to each Participant in any 12-month period shall not exceed 1% (except for any grant to substantial shareholders as defined in the Listing Rules, or an independent non-executive Director or any of their respective associates as defined in the Listing Rules, must not in aggregate exceed 0.1%) of the issued share capital of the Company from time to time.

There is no requirement as to the minimum period during which the Option shall be held before it can be exercised and the Option granted shall be exercised during the period as may be determined by the Board provided that no Option may be exercised more than 10 years after it has been granted.

The exercise price of the Option shall not be less than the highest of (a) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (b) average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

The Share Option Scheme shall be valid and effective for a period of 10 years after the date of its adoption (i.e. 12 September 2018).

RESTRICTED SHARE AWARD SCHEME

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

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

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

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

As at 31 December 2018, a sum of approximately HK$1,275,540,000 (excluding transaction costs) has been used to acquire 1,491,543,000 Shares from the market by the independent trustee. Up to the date of this report, all of the 243,887,000 share appreciation rights granted to the participants of the Group under the Share Award Scheme have lapsed.

Details of the Share Award Scheme are set out in the announcement of the Company dated 3 October 2016 and 6 October 2017 and note 35 and note 36 to the financial statements on pages 181 to 182 and page 183.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and so far as is known to any Director or Chief Executive, as at 31 December 2018, other than the Directors or the Chief Executive as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Nature	Number of ordinary Shares held	Approximate % of shareholding
Mr. Wong *(Note 1)*	Interest in controlled corporation	10,835,703,338	50.26
Ms. Du Juan *(Note 2)*	Interest in controlled corporation	10,835,703,338	50.26
Ever Ocean Investments Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
GOME Holdings Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
Power Charm Holdings Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
GOME Home Appliances (H.K.) Limited *(Note 3)*	Interest in controlled corporation	5,500,000,000	25.51
GOME Management Limited *(Note 3)*	Beneficial owner	5,500,000,000	25.51
Shinning Crown Holdings Inc. *(Note 4)*	Beneficial owner	4,454,979,938	20.67
ARK Trust (Hong Kong) Limited	Trustee	1,491,543,000	6.92

Notes:

1. Of these 10,835,703,338 Shares, 5,500,000,000 Shares were held by GOME Management Limited, 4,454,979,938 Shares were held by Shinning Crown Holdings Inc. and 634,016,736 Shares were held by Shine Group Limited (all the above companies are 100% beneficially owned by Mr. Wong), and 240,955,927 Shares were held by Smart Captain Holdings Limited and 5,750,737 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong).

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

3. All these companies are 100% beneficially owned by Mr. Wong. The Shares held by these companies refer to the same parcel of Shares.

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

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2018 are set out in note 1 to the financial statements on pages 87 to 104.

CONNECTED TRANSACTIONS

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

(1) The Master Merchandise Purchase Agreement

On 25 January 2016, 國美電器有限公司 ("GOME Appliance Company Limited" or "GOME Appliance") (being an indirectly wholly-owned subsidiary of the Company), 國美在線電子商務有限公司 ("GOME-on-line e-Commerce Co., Ltd." or "GOME-on-line") (a company with 60% equity interest held by the Group and the remaining 40% equity interest held by GOME Ruidong (as defined below) and thus is a connected person of the Company), 國美電器零售有限公司 ("GOME Electrical Appliances Retail Co., Ltd." or "GOME Retail") and 北京國美銳動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong") (Companies being indirectly owned by Mr. Wong and his associates and thus are connected persons of the Company) entered into the 2016 Master Merchandise Purchase Agreement, pursuant to which GOME Retail and GOME Ruidong agreed to, and will procure other members of the Parent Group (a group of companies (other than the Group) controlled or more than 50% owned by Mr. Wong and his associates and principally engaged in retail business.) to, at the request of GOME Appliance or GOME-on-line from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronic products) to GOME Appliance or GOME-on-line on an at-cost basis for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively. The resolutions in relation to the 2016 Master Merchandise Purchase Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 29 February 2016. During the year, the total transaction amount under the 2016 Master Merchandise Purchase Agreement was approximately RMB919.19 million.

On 12 November 2018, GOME Appliance and 美信網絡技術有限公司 ("Meixin Network Technology Company Limited" or "Meixin Network", a company with 60% equity interest held by the Group and the remaining 40% equity interest held by Mr. Wong and his associates and thus a connected subsidiary of the Company for the purpose of Listing Rules) entered into the 2019 Master Merchandise Purchase Agreement to renew the 2016 Master Merchandise Purchase Agreement, pursuant to which Meixin Network agreed to, and will procure its subsidiaries and affiliates to, at the request of the GOME Appliance or any member of the Group from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronics products) to the Group on an at-cost basis for a period of three years from 1 January 2019 to 31 December 2021, subject to the annual caps of the transaction amounts (excluding value added tax) under the 2019 Master Merchandise Purchase Agreement for the three years ending 31 December 2019, 2020 and 2021 not exceeding RMB5 billion, RMB8 billion and RMB10 billion, respectively. The resolutions in relation to the 2019 Master Merchandise Purchase Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 10 January 2019.

(2) The Master Merchandise Supply Agreement

On 25 January 2016, GOME Appliance, GOME-on-line, GOME Retail and GOME Ruidong entered into the 2016 Master Merchandise Supply Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line, GOME Retail or GOME Ruidong from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronic products) to GOME-on-line, GOME Retail or GOME Ruidong on an at-cost basis for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively. The resolutions in relation to the 2016 Master Merchandise Supply Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 29 February 2016. During the year, the total transaction amount under the 2016 Master Merchandise Supply Agreement was approximately RMB5,552.69 million.

On 12 November 2018, GOME Appliance and Meixin Network entered into the 2019 Master Merchandise Supply Agreement to renew the 2016 Master Merchandise Supply Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of Meixin Network or its subsidiaries or affiliates from time to time, supply general merchandise (including but not limited to electrical appliances and consumer electronics products) to Meixin Network or its subsidiaries or affiliates on an at-cost basis for a period of three years from 1 January 2019 to 31 December 2021, subject to the annual caps of the transaction amounts (excluding value added tax) under the 2019 Master Merchandise Supply Agreement for the three years ending 31 December 2019, 2020 and 2021 not exceeding RMB10 billion, RMB15 billion and RMB20 billion, respectively. The resolutions in relation to the 2019 Master Merchandise Supply Agreement and the annual caps were approved by the independent shareholders of the Company at the special general meeting held on 10 January 2019.

(3) The First Logistics Services Agreement

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

On 12 November 2018, GOME Appliance and Meixin Network entered into the First 2019 Logistics Services Agreement to renew the 2016 First Logistics Services Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of Meixin Network and its subsidiaries or affiliates from time to time, provide logistics services (including delivery of general merchandise to end customers) to Meixin Network or its subsidiaries or affiliates for a period of three years from 1 January 2019 to 31 December 2021, subject to the annual caps of the transaction amounts (excluding value added tax) under the First 2019 Logistics Services Agreement for the three years ending 31 December 2019, 2020 and 2021 not exceeding RMB100 million each year.

Report of the Directors

(4) The Second Logistics Services Agreement

On 30 December 2015, GOME Ruidong, 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), (a company indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), GOME Appliance and GOME-on-line entered into the 2016 Second Logistics Services Agreement, pursuant to which GOME Ruidong and Anxun Logistics agreed to, and will procure other members of the Parent Group to, at the request of GOME-on-line and GOME Appliance from time to time, provide logistics services (including delivery of general merchandise to end customers of GOME-on-line and retail stores of GOME Appliance) for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amount under the 2016 Second Logistics Services Agreement was approximately RMB607.80 million.

On 12 November 2018, GOME Appliance, Meixin Network and 國美控股集團有限公司 ("GOME Holding Group Company Limited" or "GOME Holding", a company owned by Mr. Wong and his associates and thus is a connected person of the Company) entered into the Second 2019 Logistics Services Agreement to renew the 2016 Second Logistics Services Agreement, pursuant to which GOME Holding agreed to, and will procure other members of the Parent Group to, at the request of GOME Appliance, Meixin Network or any member of the Group, from time to time, provide logistics services (including delivery of general merchandise to end customers) to GOME Appliance or the Group (including Meixin Network) for a period of three years from 1 January 2019 to 31 December 2021, subject to the annual caps of the transaction amounts (excluding value added tax) under the Second 2019 Logistics Services Agreement for the three years ending 31 December 2019, 2020 and 2021 not exceeding RMB700 million each year.

(5) The First Warehouse Services Agreement

On 30 December 2015, GOME Appliance, GOME-on-line and GOME Retail entered into the 2016 First Warehouse Services Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of GOME-on-line and GOME Retail from time to time, provide warehousing services (including storage of general merchandise) to GOME-on-line and GOME Retail for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amount under the 2016 First Warehouse Services Agreement was approximately RMB75.78 million.

On 12 November 2018, GOME Appliance and Meixin Network entered into the First 2019 Warehouse Services Agreement to renew the 2016 First Warehouse Services Agreement, pursuant to which GOME Appliance agreed to, and will procure other members of the Group to, at the request of Meixin Network and its subsidiaries or affiliates from time to time, provide warehousing services (including storage of general merchandise) to Meixin Network or its subsidiaries or affiliates for a period of three years from 1 January 2019 to 31 December 2021, subject to the annual caps of the transaction amounts (excluding value added tax) under the First 2019 Warehouse Services Agreement for the three years ending 31 December 2019, 2020 and 2021 not exceeding RMB100 million, RMB200 million and RMB300 million, respectively.

(6) The Second Warehouse Services Agreement

On 30 December 2015, GOME Retail, GOME-on-line and GOME Appliance entered into the 2016 Second Warehouse Services Agreement, pursuant to which GOME Retail agreed to, and will procure other members of the Parent Group to, at the request of GOME-on-line and GOME Appliance from time to time, provide warehousing services (including storage of general merchandise) to GOME-on-line and GOME Appliance for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the three financial years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the total transaction amount under the 2016 Second Warehouse Services Agreement was approximately RMB51.44 million.

On 12 November 2018, GOME Appliance, Meixin Network and GOME Holding entered into the Second 2019 Warehouse Services Agreement to renew the 2016 Second Warehouse Services Agreement, pursuant to which GOME Holding agreed to, and will procure other members of the Parent Group to, at the request of GOME Appliance, Meixin Network or any member of the Group from time to time, provide warehousing services (including storage of general merchandise) to GOME Appliance or the Group (including Meixin Network) for a period of three years from 1 January 2019 to 31 December 2021, subject to the annual caps of the transaction amounts (excluding value added tax) under the Second 2019 Warehouse Services Agreement for the three years ending 31 December 2019, 2020 and 2021 not exceeding RMB700 million each year.

(7) The First After-Sales Services Agreement

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

(8) The Second After-Sales Services Agreement

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

Report of the Directors

(9) Lease Agreements

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

On 1 October 2016, 15 September 2016 and 30 November 2017, the Group entered into several lease agreements with 北京新恒基房地產集團有限公司 ("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji") (a company majority owned by an associate of Mr. Wong and hence a connected person of the Company), to lease certain office units at the Pengrun Building for terms up to 9 December 2018, 19 December 2018 and 24 September 2019, respectively. The total annual caps for the rent (including management fee) payable by the Group under these agreements for the three financial years ending 31 December 2017, 2018 and 2019 are RMB39.31 million, RMB48.56 million and RMB18.99 million, respectively. During the year, the total rental expense under these lease agreements was approximately RMB45.30 million.

On 20 December 2017, the Group entered into the 2018 Xibahe Lease Agreement with 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") (a company being indirectly owned by Mr. Wong and his associates and thus, a connected person of the Company), to lease the property located at No. A7, North Lane, Xibahe, Chaoyang District, Beijing (the "Xibahe Property") for use as a retail store of the Group. Beijing GOME was no longer a connected person in 2018 and the 2018 Xibahe Lease Agreement has expired on 31 December 2018.

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

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

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

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

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

1. have been approved by the Board;

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

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

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

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 42,269 employees. The Group recruits and promotes individuals based on merit and their development potentials. The remuneration package inclusive of bonus and restricted share award scheme offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 10 to the financial statements on page 152.

COMMITMENTS

Details of commitments are set out in note 41 to the financial statements on pages 187 to 188.

INDEPENDENCE CONFIRMATION

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 62 to 73.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 45 to the financial statements on pages 198 to 199.

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

During December 2018, the Company made on-market repurchases of the overseas bonds in the aggregate principal amount of approximately US$4,000,000. After the repurchase, the outstanding principal amount of the overseas bonds was approximately US$496,000,000.

In December 2018, the Group issued the first tranche of the 2018 domestic bonds with an aggregate principal amount of approximately RMB600,000,000 at coupon rate of 7.8% per annum in the PRC. Such domestic bonds have a term of 6 years.

In December 2018, the Group has completed the renewal of the 2016 domestic bonds, the bond holders holding 2016 domestic bonds with the outstanding aggregate principal amount of approximately RMB2,660,210,000 have continued to hold the 2016 domestic Bonds, and the original coupon rate of the 2016 domestic bonds of 4% per annum has been adjusted to 7.6% per annum with remaining term of 3 years.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2018.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

On 31 March 2016, the Company issued 2.5 billion warrants (the "Warrants") as part of the consideration to acquire the Artway Group. Pursuant to the acquisition agreement and the supplemental agreement, the Warrants are exercisable to subscribe for an aggregate of 2.5 billion Shares at an initial exercise price of HK$2.15 per share at any time prior to the second anniversary of the Issue Date. The exercise price of the Warrants is subject to adjustment in accordance with the terms and conditions upon the occurrence of certain events including, among other things, subdivision or consolidation of shares, the making of a free distribution of shares, bonus issue, the declaration of a dividend in shares, capital distribution, issuance of options, rights or other warrants, and other dilutive events such as issue of new shares. No warrant has been exercised by the warrant holder and the warrants has lapsed on 1 April 2018.

Save as disclosed above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2018.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

There were no information required for disclosure by the Company under Rule 13.20 of the Listing Rules during the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 46 to the financial statements on page 205.

FIVE YEARS FINANCIAL SUMMARY

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

RISK FACTORS

Details of the risks associated with the operation of the Group are set out in the risk factors section on pages 59 to 61.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Environmental Protection

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

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

Compliance with Laws and Regulations

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

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

Workplace Quality

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

Report of the Directors

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

Health and Safety

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

Training and Development

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

Commitment to Quality

The Group has made relentless efforts in delivering premium products and highly tailored services. Looking forward to 2019, the Company will continue with its research and innovation to enrich the Group's products.

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

Management of Supply Chain

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

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

On behalf of the Board

Zhang Da Zhong
Chairman

Hong Kong, 29 March 2019

Risk Factors

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

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Economic conditions

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

Credit terms

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

Terms of the supply agreements

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

Risk Factors

Reliance on key management personnel

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

Location of outlets and lease renewal

One of the key factors in the success of the Group is its ability to establish its retail outlets at suitable and convenient locations where there is high pedestrian traffic and good accessibility (whether by public transportation or other means). During the year ended 31 December 2018, most of the retail outlets leased by the Group were with a term of 5 to 10 years. Given the scarcity of retail premises at these suitable and convenient locations, there is no assurance that the Group will be able to find premises suitable for its retail operations or to lease them on commercially acceptable terms. In the event that there is any material difficulty in finding retail premises at suitable locations or securing the leasing of such premises on commercially acceptable terms, the Group's expansion plans and business performance may be adversely affected.

Intensified competition between traditional retailers and online retailers

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

The operation of the ERP information management system

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

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

RISKS ASSOCIATED WITH THE PRC

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

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

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

Changes in foreign exchange regulations and fluctuation of RMB

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

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to upholding good corporate governance practices. For the year ended 31 December 2018, the Company was in compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS

Board composition

During the year ended 31 December 2018 and up to the date of issue of this Annual Report, the Board comprises the following executive Director, non-executive Directors and independent non-executive Directors:

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

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

Each of Mr. Zou Xiao Chun, being an executive Director, Ms. Huang Xiu Hong, being a non-executive Director and Mr. Lee Kong Wai, Conway, being an independent non-executive Director, was appointed at the 2018 Annual General Meeting of the Company with a specific term of 3 years from 28 June 2018. Each of Mr. Yu Sing Wong, being a non-executive Director, Ms. Liu Hong Yu and Mr. Wang Gao, both being an independent non-executive Director, was re-elected at the 2017 Annual General Meeting of the Company with a specific term of 3 years from 26 May 2017. Mr. Zhang Da Zhong, being a non-executive Director, was re-elected at the 2016 Annual General Meeting of the Company with a specific term of 3 years from 22 June 2016. The Board has confirmed with each of the independent non-executive Director as to his/her independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

Roles and functions

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

Board meetings and general meetings

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2018, 7 Board meetings (including 4 regular Board meetings) and 2 general meetings of the Company were held. Details of the Directors' attendance records during the year are as follows:

Directors	Special General Meeting held on 12 September 2018 Attendance	Annual General Meeting held on 28 June 2018 Attendance	Board Meeting Attendance
Mr. Zhang Da Zhong	1/1	1/1	7/7 (4/4)*
Mr. Zou Xiao Chun	1/1	1/1	7/7 (4/4)*
Ms. Huang Xiu Hong	1/1	1/1	7/7 (4/4)*
Mr. Yu Sing Wong	1/1	1/1	7/7 (4/4)*
Mr. Lee Kong Wai, Conway	1/1	1/1	7/7 (4/4)*
Ms. Liu Hong Yu	1/1	1/1	7/7 (4/4)*
Mr. Wang Gao	1/1	1/1	7/7 (4/4)*

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Directors' Trainings

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

1. Annual in-house training conducted by external counsel in December 2018 on, among others, updates on the Listing Rules for 2 hours (the "Annual In-house Training"); and

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

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

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

Names of Directors	Details of trainings
Mr. Zhang Da Zhong	– Attended the Annual In-house Training.
Mr. Zou Xiao Chun	– Attended the Annual In-house Training.
Ms. Huang Xiu Hong	– Attended the Annual In-house Training.
Mr. Yu Sing Wong	– Attended the Annual In-house Training.
Mr. Lee Kong Wai, Conway	– Attended the Annual In-house Training. – attended the training on the Latest 2018 Trends on the H-share Regulatory and the Continuing Obligations and Responsibilities of Hong Kong Listed Company's Directors and Senior Executives organized by Freshfields Bruckhaus Deringer for 1 hour in March 2018. – attended the training on Share Based Payments organized by PwC for 2 hours in June 2018. – attended the training on the Updates on Latest Listing and SFC Rules organized by Freshfields Bruckhaus Deringer for 1 hour in August 2018. – attended the training on the Updates on Listing Rules organized by Paul Hastings for 1 hour in November 2018. – attended the training on the Quick Updates of the Hong Kong Regulatory and Compliance, the Board of Directors and Directors' Guidelines and the Investment and Development of Overseas Solar Projects organized by King & Wood Mellesons for 3 hours in December 2018. – attended the training on Corporate Governance and Recent Regulatory Developments of Listed Companies in Hong Kong organized by Freshfields Bruckhaus Deringer for 1 hour in December 2018. – studied the Board of Directors and Directors' Guidelines, Review of the Corporate Governance Code and the Listing Rules and the online training on the Directors of Listed Issuers, issued by the Hong Kong Stock Exchange for a total of 2.45 hours.
Ms. Liu Hong Yu	– Attended the Annual In-house Training.
Mr. Wang Gao	– Attended the Annual In-house Training.

BOARD COMMITTEES

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

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

Remuneration Committee

The Remuneration Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph B.1.2 of the CG Code. During the year ended 31 December 2018, a majority of the members of the Remuneration Committee are independent non-executive Directors and the Remuneration Committee comprised the following members:

Mr. Lee Kong Wai, Conway	*(Independent non-executive Director and the chairman of the Remuneration Committee)*
Ms. Liu Hong Yu	*(Independent non-executive Director)*
Mr. Wang Gao	*(Independent non-executive Director)* (appointed with effect from 25 May 2018)
Mr. Zou Xiao Chun	*(Executive Director)*
Ms. Huang Xiu Hong	*(Non-executive Director)*

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

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

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

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

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

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

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

Corporate Governance Report

The Remuneration Committee shall meet at least once each year. During the year ended 31 December 2018, the Remuneration Committee, among other matters, approved and recommended the terms and remunerations of the executive Director, the non-executive Director and the independent non-executive Director for re-election and the adoption of a share option scheme.

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

Committee members	Attendance
Mr. Lee Kong Wai, Conway	2/2
Ms. Liu Hong Yu	2/2
Mr. Wang Gao	2/2
Mr. Zou Xiao Chun	2/2
Ms. Huang Xiu Hong	2/2

Nomination Committee

The Nomination Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph A.5.2 of the CG Code. During the year ended 31 December 2018, a majority of the members of the Nomination Committee are independent non-executive Directors and the Nomination Committee comprised the following members:

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

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

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

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

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

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

The Nomination Committee shall meet at least once each year.

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

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

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

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

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

Corporate Governance Report

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

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

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

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

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

The factors listed below would be used by the Nomination Committee as reference in assessing the suitability of a proposed candidate:

1. Character and integrity;

2. Accomplishment and experience;

3. Compliance with legal and regulatory requirements;

4. Commitment in respect of available time and relevant interest; and

5. Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Independent Committee

The Independent Committee was established by the Board on 21 August 2009. During the year ended 31 December 2018, the Independent Committee comprised the following members:

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

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

1. to evaluate, assess and advise on the material connected transactions of the Group before execution;
2. to oversee the execution and performance of the material connected transactions of the Group;
3. to devise and review the internal control systems, policies and/or procedures relating to connected transaction management of the Group;
4. to monitor the compliance of material connected transactions of the Group with the applicable law and regulations;
5. to devise and review the internal control systems, policies and/or procedures of the Group generally;
6. to report to the Board on all matters relating to connected transactions and internal control matters of the Group; and
7. to consider other matters and/or special projects as assigned and authorized by the Board.

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

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

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

Accountability and Audit

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

Audit Committee

The Audit Committee was established in 2004. During the year ended 31 December 2018, the Audit Committee comprised the following members:

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

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

Corporate Governance Report

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

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

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

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

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

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

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

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

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

The Audit Committee shall meet at least twice each year. In 2018, 5 Audit Committee meetings were held for, among other matters, considering the annual results of the Group for the financial year ended 31 December 2017, the quarterly results of the Group for the three-month period ended 31 March 2018, the interim results of the Group for the six-month period ended 30 June 2018 and the quarterly results of the Group for the nine-month period ended 30 September 2018, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group.

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

Committee members	Attendance
Mr. Lee Kong Wai, Conway	5/5
Ms. Liu Hong Yu	5/5
Mr. Yu Sing Wong	5/5

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2018 was RMB7,700,000 (2017: RMB7,413,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2018 was nil (2017: RMB1,834,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the annual general meeting to be held in 2019. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the annual general meeting to be held in 2019.

INTERNAL CONTROLS AND RISKS MANAGEMENT

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

The Board had reviewed the effectiveness of the Group's internal control and risk management systems for the year 2018 and is satisfied that, based on information furnished to it and on its own observations, the present internal control systems of the Group are satisfactory.

COMPANY SECRETARY

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

COMMUNICATION WITH SHAREHOLDERS

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

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

SHAREHOLDERS' RIGHTS

Right to convene a special general meeting

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

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

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

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

Right to propose resolutions at general meetings

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

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

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

Right to nominate directors for election at general meetings

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

Disclaimers

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, there was no significant change to the Company's Bye-laws or Memorandum of Association.

PROCEDURES FOR PUTTING ENQUIRIES TO THE BOARD

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

INVESTOR RELATIONS

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

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

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

Independent Auditor's Report

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

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

OPINION

We have audited the consolidated financial statements of GOME Retail Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 79 to 207, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of RMB11,924,919,000 as of 31 December 2018 and the goodwill impairment amount charged to the current year's profit or loss of RMB2,185,081,000 were material to the consolidated financial statements. In addition, management's assessment process is complex and judgemental and is based on various assumptions, specifically assumptions about store revenues, gross margins, expenses and the discount rate, which are affected by expected future market or economic conditions. The Group's disclosures about goodwill are included in notes 3 and 15 to the consolidated financial statements.	Our audit procedures included, among others, involving our valuation experts to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and long-term growth rate for Artway Development Limited ("Artway"), China Paradise Electronics Retail Limited ("China Paradise") and Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances"). Our testing included, but was not limited to, comparing key assumptions to externally available industry, economic and financial data and the Group's own historical data and performance. We also performed a sensitivity analysis for the recoverable amounts of the respective cash-generating units. We also focused on the adequacy of the disclosures about the key assumptions used in the value in use calculations in the consolidated financial statements.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment testing of non-current assets related to retail stores and online business	
The Group operates networks of retail stores and online sale of home appliances in Mainland China. The related non-current assets for retail stores and online business mainly represent leasehold improvements and equipment, which were important to our audit due to the size of the related assets with a carrying amount of RMB1,011,336,000 at 31 December 2018, as well as the judgement of management involved in the assessment of the recoverability of the assets. Such judgement is mainly focused on estimating future store performance, which is dependent on, amongst others, the industry landscape, overall economic environment and the competitors in local markets. Management assesses, on a half-year basis, whether there are events indicating a potential impairment. Management provided for an impairment loss of RMB87,566,000 during the year. The Group's disclosures about the impaired assets are included in notes 3 and 13 to the consolidated financial statements.	Our audit procedures included, among others, an evaluation of the Group's policies and procedures to identify events that are indicators of the potential impairment of assets related to underperforming cash-generating units ("CGUs"). We assessed management's cash flow assumptions for each cash-generating unit for which an impairment indicator was identified and corroborated them by comparing to internal forecasts and store improvement plans, as well as to historical data and performance. We also involved our valuation experts to evaluate the discount rate applied by the Group.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	6	**64,356,031**	71,574,873
Cost of sales	7	**(54,616,715)**	(60,519,950)
Gross profit		**9,739,316**	11,054,923
Other income and gains	6	**1,070,069**	2,012,321
Selling and distribution expenses		**(9,707,689)**	(9,595,440)
Administrative expenses		**(2,583,320)**	(2,322,337)
Impairment losses on financial assets		**(40,622)**	–
Other expenses		**(3,154,892)**	(1,531,295)
Share of losses of associates	17	**(216,864)**	(19,976)
Loss before finance (costs)/income and tax		**(4,894,002)**	(401,804)
Finance costs	8	**(861,238)**	(691,860)
Finance income	8	**341,503**	294,803
LOSS BEFORE TAX	7	**(5,413,737)**	(798,861)
Income tax expense	11	**(80,142)**	(328,789)
LOSS FOR THE YEAR		**(5,493,879)**	(1,127,650)
Attributable to:			
Owners of the parent		**(4,886,895)**	(449,895)
Non-controlling interests	38	**(606,984)**	(677,755)
		(5,493,879)	(1,127,650)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic		**(RMB23.7 fen)**	(RMB2.1 fen)
– Diluted		**(RMB23.7 fen)**	(RMB2.1 fen)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
LOSS FOR THE YEAR		**(5,493,879)**	(1,127,650)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of other investments		**–**	(240,030)
Exchange differences on translation of foreign operations		**13,228**	(12,454)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**13,228**	(252,484)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of financial assets designated at fair value through other comprehensive income	*18*	**(303,314)**	–
Net other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods		**(303,314)**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(290,086)**	(252,484)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(5,783,965)**	(1,380,134)
Attributable to:			
Owners of the parent		**(5,176,981)**	(702,379)
Non-controlling interests	*38*	**(606,984)**	(677,755)
		(5,783,965)	(1,380,134)

Consolidated Statement of Financial Position

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	6,541,780	6,398,106
Investment properties	14	907,044	901,285
Goodwill	15	11,924,919	14,110,000
Other intangible assets	16	342,632	388,522
Investments in associates	17	281,879	201,684
Investment in a joint venture		3,781	3,781
Other investments	18	–	1,956,320
Financial assets designated at fair value through other comprehensive income	18	550,285	–
Financial assets at fair value through profit or loss	19	851,668	–
Lease prepayments and deposits	20	2,061,231	2,142,728
Entrusted loan	21	–	500,000
Deferred tax assets	22	68,045	48,789
Total non-current assets		23,533,264	26,651,215
CURRENT ASSETS			
Inventories	23	8,221,237	11,255,447
Trade receivables	24	145,404	186,370
Prepayments, other receivables and other assets	25	5,807,707	5,053,080
Entrusted loan	21	500,000	–
Due from related companies	26	148,712	349,953
Equity investments at fair value through profit or loss	19	–	3,748,709
Financial assets at fair value through profit or loss	19	1,462,624	–
Pledged deposits	27	10,779,504	6,735,401
Cash and cash equivalents	27	10,143,339	9,243,844
Total current assets		37,208,527	36,572,804
CURRENT LIABILITIES			
Trade and bills payables	28	21,350,182	22,838,893
Current portion of a finance lease payable	33	12,863	51,994
Other payables and accruals	29	3,264,999	4,296,710
Contract liabilities	30	690,645	–
Interest-bearing bank loans and other borrowings	31	11,807,418	3,025,262
Due to related companies	26	108,407	121,820
Tax payable		1,053,301	1,059,600
Current portion of bonds payable	32	2,316,631	3,949,387
Total current liabilities		40,604,446	35,343,666
NET CURRENT (LIABILITIES)/ASSETS		(3,395,919)	1,229,138

Consolidated Statement of Financial Position

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,137,345**	27,880,353
NON-CURRENT LIABILITIES			
Bonds payable	*32*	**6,609,960**	8,165,796
Due to related companies	*26*	**1,672,006**	1,617,682
Deferred tax liabilities	*22*	**450,023**	460,765
Interest-bearing bank loans	*31*	**321,592**	96,938
Finance lease payable	*33*	**–**	12,946
Total non-current liabilities		**9,053,581**	10,354,127
Net assets		**11,083,764**	17,526,226
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*34*	**518,322**	518,322
Reserves	*37*	**13,559,325**	19,394,803
		14,077,647	19,913,125
Non-controlling interests		**(2,993,883)**	(2,386,899)
Total equity		**11,083,764**	17,526,226

Zhang Da Zhong
Director

Zou Xiao Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners of the parent														
	Notes	Issued capital RMB'000 Note 34	Treasury shares RMB'000 Note 36	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Warrant reserve RMB'000	Asset revaluation reserve# RMB'000	Other investments revaluation reserve RMB'000	Financial asset revaluation reserve RMB'000	Statutory reserves RMB'000 Note 37	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017		518,322	(405,287)	13,829,135	657	(1,845,490)	117,731	117,468	116,674	–	1,712,352	(161,069)	5,912,632	19,913,125	(2,386,899)	17,526,226
Effect of adoption of IFRS 9	2.2	–	–	–	–	–	–	–	(116,674)	116,674	–	–	22,873	22,873	–	22,873
At 1 January 2018 (restated)		518,322	(405,287)	13,829,135	657	(1,845,490)	117,731	117,468	–	116,674	1,712,352	(161,069)	5,935,505	19,935,998	(2,386,899)	17,549,099
Loss for the year		–	–	–	–	–	–	–	–	–	–	–	(4,886,895)	(4,886,895)	(606,984)	(5,493,879)
Other comprehensive loss for the year:																
Changes in fair value of financial assets designated at fair value through other comprehensive income, net of tax	18	–	–	–	–	–	–	–	–	(303,314)	–	–	–	(303,314)	–	(303,314)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	–	13,228	–	13,228	–	13,228
Total comprehensive loss for the year		–	–	–	–	–	–	–	–	(303,314)	–	13,228	(4,886,895)	(5,176,981)	(606,984)	(5,783,965)
Transfer to statutory reserve		–	–	–	–	–	–	–	–	–	21,056	–	(21,056)	–	–	–
Shares repurchased for share award scheme		–	(681,370)	–	–	–	–	–	–	–	–	–	–	(681,370)	–	(681,370)
Expiry of warrants		–	–	–	–	–	(117,731)	–	–	–	–	–	117,731	–	–	–
At 31 December 2018		518,322	(1,086,657)*	13,829,135*	657*	(1,845,490)*	–	117,468*	–	(186,640)*	1,733,408*	(147,841)*	1,145,285*	14,077,647	(2,993,883)	11,083,764

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners of the parent														
	Notes	Issued capital RMB'000 Note 34	Treasury shares RMB'000 Note 36	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000 Note 37	Warrant reserve RMB'000	Asset revaluation reserve# RMB'000	Other investments revaluation reserve RMB'000	Statutory reserves RMB'000 Note 37	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		527,309	(257,495)	14,183,499	657	(618,172)	163,720	117,731	117,468	356,704	1,674,765	(148,615)	6,368,588	22,486,159	(1,510,932)	20,975,227
Loss for the year		–	–	–	–	–	–	–	–	–	–	–	(449,895)	(449,895)	(677,755)	(1,127,650)
Other comprehensive loss for the year:																
Changes in fair value of other investments	18	–	–	–	–	–	–	–	–	(240,030)	–	–	–	(240,030)	–	(240,030)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	–	(12,454)	–	(12,454)	–	(12,454)
Total comprehensive loss for the year		–	–	–	–	–	–	–	–	(240,030)	–	(12,454)	(449,895)	(702,379)	(677,755)	(1,380,134)
Establishment of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	–	20,000	20,000
Acquisition of subsidiaries		–	–	–	–	(1,227,318)	–	–	–	–	–	–	–	(1,227,318)	(218,212)	(1,445,530)
Shares repurchased for cancellation		(8,987)	–	(354,364)	–	–	–	–	–	–	–	–	–	(363,351)	–	(363,351)
Shares repurchased for share award scheme		–	(147,792)	–	–	–	–	–	–	–	–	–	–	(147,792)	–	(147,792)
Transfer to statutory reserves		–	–	–	–	–	–	–	–	–	37,772	–	(37,772)	–	–	–
2016 dividend paid	39	–	–	–	–	–	–	–	–	–	–	–	(132,194)	(132,194)	–	(132,194)
Share options expired	35	–	–	–	–	–	(163,720)	–	–	–	–	–	163,720	–	–	–
Wind-up of subsidiaries		–	–	–	–	–	–	–	–	–	(185)	–	185	–	–	–
At 31 December 2017		518,322	(405,287)*	13,829,135*	657*	(1,845,490)*	–	117,731*	117,468*	116,674*	1,712,352*	(161,069)*	5,912,632*	19,913,125	(2,386,899)	17,526,226

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

* These reserve accounts comprise the consolidated reserves of RMB13,559,325,000 (2017: RMB19,394,803,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(5,413,737)	(798,861)
Adjustments for:			
Finance income	8	(341,503)	(294,803)
Finance costs	8	861,238	691,860
Share of losses of associates		216,864	19,976
Dividend income from financial assets at fair value through profit or loss	6	(5,447)	(10,938)
Gain on disposal of financial assets at fair value through profit or loss		(761)	–
Gain on disposal of other investments	6	–	(3,788)
Loss on financial assets at fair value through profit or loss	7	93,021	–
Gain on equity investments at fair value through profit or loss	6	–	(213,594)
Impairment losses on goodwill	7	2,185,081	214,966
Impairment losses on property and equipment	7	87,566	374,204
Impairment losses on financial assets	7	40,622	–
Net fair value loss/(gain) on investment properties	7	6,649	(28,129)
Loss on disposal of property and equipment	7	23,486	91,196
Depreciation	7	753,267	811,330
Amortisation of intangible assets	7	45,890	43,881
Amortisation of prepaid land lease payments	7	35,536	33,300
		(1,412,228)	930,600
Decrease/(increase) in lease prepayments and deposits		164,834	(575,516)
Decrease in inventories		3,034,210	404,368
Increase in prepayments, deposits and other receivables		(636,221)	(161,151)
Decrease/(increase) in trade receivables		20,160	(23,360)
Decrease in amounts due from related companies		201,241	303,451
(Increase)/decrease in pledged deposits for bills payable		(578,130)	211,905
Decrease in trade and bills payables		(1,490,981)	(1,059,680)
Increase in contract liabilities		690,645	–
(Decrease)/increase in customers' deposits, other payables and accruals		(1,095,640)	183,358
Decrease in amounts due to related companies		(44,626)	(1,300,933)
Cash used in operations		(1,146,736)	(1,086,958)
Interest received		205,895	226,712
Income tax paid		(127,030)	(295,821)
Net cash flows used in operating activities		(1,067,871)	(1,156,067)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows used in operating activities		**(1,067,871)**	(1,156,067)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from financial assets at fair value through profit or loss		**5,447**	10,938
Purchases of property and equipment		**(951,552)**	(757,403)
Purchase of an investment property		**–**	(280,939)
Purchases of equity investments at fair value through profit or loss		**–**	(3,397,186)
Purchases of available-for-sale investments		**–**	(1,199,334)
Purchases of financial assets at fair value through profit or loss		**(8,268,362)**	–
Purchases of financial assets designated at fair value through other comprehensive income		**(107,514)**	–
Investments in associates		**(297,059)**	(204,660)
Investment in a joint venture		**–**	(3,781)
Net cash used in acquisition of Meixin Group		**–**	(875,545)
Net cash used in acquisition of Tianjin GOME Warehousing	5	**(89,522)**	–
Prepaid land lease payments		**(58,132)**	(80,166)
Proceeds from disposal of property and equipment		**126,857**	3,975
Proceeds from disposal of equity investments at fair value through profit or loss		**–**	1,195,600
Proceeds from disposal of financial assets at fair value through profit or loss		**10,945,344**	–
Proceeds from disposal of available-for-sale investments		**–**	13,818
Net cash flows from/(used) in investing activities		**1,305,507**	(5,574,683)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		**(681,370)**	(511,143)
Proceeds from the issuance of corporate bonds		**596,400**	3,423,045
Capital injection from non-controlling shareholders		**–**	20,000
Payment for a finance lease payable		**(53,666)**	(41,716)
Repayment of corporate bonds		**(4,027,441)**	–
Proceeds from new bank loans		**11,200,059**	1,981,326
Repayment of bank loans		**(2,172,867)**	(966,793)
Proceeds from the loans due to related companies		**54,324**	1,160,482
Deposits for bonds payable		**–**	(163,782)
Proceeds from pledged deposits for bank loans		**–**	703,600
Payment for pledged deposits for bank loans		**(3,458,247)**	(2,104,320)
Dividends paid		**–**	(132,194)
Interest paid		**(942,096)**	(552,457)
Net cash flows from financing activities		**515,096**	2,816,048
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**752,732**	(3,914,702)
Cash and cash equivalents at 1 January		**9,243,844**	13,236,752
Effect of foreign exchange rate changes, net		**146,763**	(78,206)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,143,339**	9,243,844
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**6,264,223**	8,133,244
Non-pledged time deposits with original maturity of less than three months when acquired		**3,879,116**	1,110,600
	27	**10,143,339**	9,243,844

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

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

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tianjin GOME Electrical Appliance Company Limited (i) 天津國美電器有限公司	PRC	RMB40 million	–	100	Note (iii)
Chongqing GOME Electrical Appliance Company Limited (i) 重慶市國美電器有限公司	PRC	RMB20 million	–	100	Note (iii)
Chengdu GOME Electrical Appliance Company Limited (i) 成都國美電器有限公司	PRC	RMB50 million	–	100	Note (iii)
Xi'an GOME Electrical Appliance Company Limited (i) 西安市國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Kunming GOME Electrical Appliance Company Limited (i) 昆明國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Shenzhen GOME Electrical Appliance Company Limited (i) 深圳市國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Fuzhou GOME Electrical Appliance Company Limited (i) 福州國美電器有限公司	PRC	RMB50 million	–	100	Note (iii)
Guangzhou GOME Electrical Appliance Company Limited (i) 廣州市國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Wuhan GOME Electrical Appliance Company Limited (i) 武漢國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenyang GOME Electrical Appliance Company Limited (i) 瀋陽國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Jinan GOME Electrical Appliance Company Limited (i) 濟南國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Qingdao GOME Electrical Appliance Company Limited (i) 青島國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Kunming GOME Logistics Company Limited (i) 昆明國美物流有限公司	PRC	RMB8 million	–	100	Note (iv)
Changzhou Jintaiyang Zhizun Home Appliances Company Limited (i) 常州金太陽至尊家電有限公司	PRC	RMB50 million	–	100	Note (iii)
Beijing Pengze Real Estate Company Limited (i) 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding
Jiangsu Pengrun GOME Electrical Appliance Company Limited (i) 江蘇鵬潤國美電器有限公司	PRC	RMB20 million	–	100	Note (iii)
GOME Retail Co., Ltd. (i) 國美零售有限公司	PRC	RMB100 million	–	100	Note (vi)

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen eHome Commercial Chain Company Limited (i) 深圳易好家商業連鎖有限公司	PRC	RMB20 million	–	100	Note (iii)
Gansu GOME Logistics Company Limited (i) 甘肅國美物流有限公司	PRC	RMB10 million	–	100	Note (iv)
Nanjing Pengze Investment Company Limited (i) 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding
Yongle (China) Electronics Retail Company Limited (ii) 永樂(中國)電器銷售有限公司	PRC	RMB220 million	–	100	Note (iii)
Guangdong Yongle Electronics Retail Company Limited (i) 廣東永樂家用電器有限公司	PRC	RMB30 million	–	100	Note (iii)
Henan Yongle Electronics Retail Company Limited (i) 河南永樂生活電器有限公司	PRC	RMB20 million	–	100	Note (iii)
Jiangsu GOME Yongle Electronics Retail Company Limited (i) 江蘇國美永樂家用電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Shanghai Yongle Communication Equipment Company Limited (i) 上海永樂通訊設備有限公司	PRC	RMB10 million	–	100	Note (iii)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Sichuan Yongle Electronics Retail Company Limited (i) 四川永樂家用電器連鎖有限公司	PRC	RMB20 million	–	100	Note (iii)
Xiamen Yongle Siwen Electronics Retail Company Limited (i) 廈門永樂思文家電有限公司	PRC	RMB10 million	–	100	Note (iii)
Zhejiang GOME Yongle Electronics Retail Company Limited (i) 浙江國美永樂電器有限公司	PRC	RMB15 million	–	100	Note (iii)
Shaanxi Cellstar Telecommunication Retail Chain Company Limited (i) 陝西蜂星電訊零售連鎖有限責任公司	PRC	RMB10 million	–	100	Note (vii)
Shandong Longji Island Construction Company Limited (i) 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Note (vi)
Beijing Dazhong Hengxin Ruida Trading Company Limited (i) 北京市大中恒信瑞達商貿有限公司	PRC	RMB200 million	–	100	Note (iv)
GOME Customization (Tianjin) Home Appliances Co., Ltd. (i) 國美定制（天津）家電有限公司	PRC	RMB20 million	–	100	Note (iv)
Kuba Technology (Beijing) Co., Ltd. (“Kuba”) (i) 庫巴科技（北京）有限公司	PRC	RMB83 million	–	60	Note (ix)
GOME-on-line e-Commerce Co., Ltd. (“GOME-on-line”) (i) 國美在線電子商務有限公司	PRC	RMB83 million	–	60	Note (ix)

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
GOME Japan Company Limited	Japan	JPY200 million	–	51	Note (ix)
Beijing Dazhong Home Appliances Retail Co., Ltd. (i) 北京市大中家用電器連鎖銷售有限公司	PRC	RMB200 million	–	100	Note (iii)
GOME International Trading Company Limited	Hong Kong	HK$1	100	–	Note (ix)
Shantou Shengyuan Yuexin Technology Co., Ltd. (i) 汕頭盛源悦信科技有限公司	PRC	US$12 million/ US$30 million	–	100	Notes (iv)/(v)
GOME Smart Technology Co., Ltd. (i) 國美智能科技有限公司	PRC	RMB50 million	–	100	Note (xi)
GOME Big Data Holdings (H.K.) Limited	Hong Kong	HK$1	–	100	Note (vi)
Beijing GOME Anxun Technology Co., Ltd. (i) 北京國美安迅科技有限公司	PRC	RMB50 million	–	100	Note (x)
Shenyang GOME Anxun Technology Co., Ltd. (i) 瀋陽國美安迅科技有限公司	PRC	RMB50 million	–	100	Note (x)
Beijing GOME Steward IT Co., Ltd. (i) 北京國美管家信息技術有限公司	PRC	RMB10 million	–	65	Note (xi)
Ningbo GOME Anxun Technology Co., Ltd. (i) 寧波國美安迅科技有限公司	PRC	RMB50 million	–	100	Note (x)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
GOME Big Data Technology Co., Ltd. (i) 國美大數據科技有限公司	PRC	RMB50 million	–	60	Note (xi)
Chengdu GOME Big Data Technology Co., Ltd. (i) 成都國美大數據科技有限公司	PRC	RMB30 million/ RMB100 million	–	100	Note (xi)
Tianjin GOME Equity Investment Management Co., Ltd. (i) 天津國美股權投資管理有限公司	PRC	RMB30 million	–	100	Note (vi)
Tianjin GOME Xinchang Equity Investment Management Co., Ltd. (i) 天津國美信昌股權投資管理有限公司	PRC	RMB10 million	–	100	Note (vi)
Dazi GOME Xinze Entrepreneurship Investment Management Co., Ltd. (i) 達孜國美信澤創業投資管理有限公司	PRC	RMB10 million/ RMB30 million	–	100	Note (vi)
Tianjin GOME Xinchangda Equity Investment LLP 天津國美信昌達股權投資合夥企業（有限合夥）	PRC	RMB61 million/ RMB305 million	–	100	Note (vi)
Artway Development Limited 藝偉發展有限公司	British Virgin Islands	US$1	100	–	Note (vi)
Beijing Jinzun Technology Development Co., Ltd. (i) 北京金尊科技發展有限公司	PRC	RMB108.9 million	–	100	Note (vi)
GOME Electrical Appliances Retail Co., Ltd. (i) 國美電器零售有限公司	PRC	RMB100 million	–	100	Note (iii)

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing GOME Logistics Co., Ltd. (i) 北京國美物流有限公司	PRC	RMB10 million	–	100	Note (iv)
Beijing Dingrui Property Co., Ltd. (i) 北京鼎鋭置業有限公司	PRC	RMB10 million	–	100	Property holding
Anshan GOME Electrical Appliances Co., Ltd. (i) 鞍山國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Daqing GOME Electrical Appliances Co., Ltd. (i) 大慶國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Dalian Xinxundian Trading Co., Ltd. (i) 大連新訊點貿易有限公司	PRC	RMB500,000	–	100	Note (vii)
Datong Century North Electrical Appliances Co., Ltd. (i) 大同世紀北方電器有限責任公司	PRC	RMB5 million	–	100	Note (iii)
Guizhou GOME Electrical Appliances Co., Ltd. (i) 貴州國美電器有限公司	PRC	RMB5 million	–	100	Note (iii)
Henan GOME Electrical Appliances Co., Ltd. (i) 河南省國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)
Hebei GOME Electrical Appliances Co., Ltd. (i) 河北國美電器有限公司	PRC	RMB10 million	–	100	Note (iii)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

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1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hainan GOME Taida Logistics Co., Ltd. (i) 海南國美泰達物流有限公司	PRC	RMB10 million	–	100	Note (iv)
Zhongshan GOME Logistics Management Co., Ltd. (i) 中山國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Yantai GOME Logistics Management Co., Ltd. (i) 煙台國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Zhejiang GOME Logistics Management Co., Ltd. (i) 浙江國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Shenyang GOME Logistics Management Co., Ltd. (i) 瀋陽國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Guizhou GOME Logistics Management Co., Ltd. (i) 貴州國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Shanghai GOME Logistics Management Co., Ltd. (i) 上海國美供應鏈管理有限公司	PRC	RMB10 million	–	100	Note (iv)
Shanghai Yongle Minrong Logistics Co., Ltd. (i) 上海永樂民融供應鏈有限公司	PRC	RMB10 million	–	100	Note (iv)
Chongqing GOME Yuxin Electrical Appliances Co., Ltd. (i) 重慶國美渝信家電有限公司	PRC	RMB10 million	–	100	Note (iv)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xinjiang GOME Home Electrical Appliances Co., Ltd. (i) 新疆國美家電有限公司	PRC	RMB10 million	–	100	Note (iv)
Xi'an GOME Commerce Co., Ltd. (i) 西安國美商業有限公司	PRC	RMB10 million	–	100	Note (iv)
Zhanjiang GOME Commerce Co., Ltd. (i) 湛江國美商業有限公司	PRC	RMB10 million	–	100	Note (iv)
Foshan GOME Electrical Appliances Co., Ltd. (i) 佛山國美電器有限公司	PRC	RMB10 million	–	100	Note (iv)
GOME Wang'an Technology Co., Ltd. (i) 國美網安科技有限公司	PRC	RMB10 million/ RMB50 million	–	100	Note (xi)
Beijing GOME Cloud Network Technology Co., Ltd. (i) 北京國美雲網絡科技有限公司	PRC	RMB50 million	–	60	Note (xi)
GOME Capital Management Co., Ltd. (i) 國美資本管理有限公司	PRC	RMB50 million/ RMB100 million	–	100	Note (vi)
Shenzhen GOME Yunzhi Technology Co., Ltd. (i) 深圳國美雲智科技有限公司	PRC	RMB15 million/ RMB100 million	–	100	Note (xi)
Ningbo Meishan Bonded Port GOME Investment Partnership (limited partnership) 寧波梅山保税港區國美投資合夥企業（有限合夥）	PRC	RMB558 million/ RMB5,000 million	–	100	Note (vi)

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1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ningbo Meishan Bonded Port GOME Xinshengda Investment Partnership (limited partnership) 寧波梅山保税港區國美信盛達創業投資合夥企業（有限合夥）	PRC	RMB462 million/ RMB1,500 million	–	100	Note (vi)
Tianjin GOME Xinxing Equity Investment Management Co., Ltd. (i) 天津國美信興股權投資管理有限公司	PRC	RMB3 million/ RMB10 million	–	100	Note (vi)
Tianjin GOME Xinsheng Equity Investment Management Co., Ltd. (i) 天津國美信盛股權投資管理有限公司	PRC	RMB3 million/ RMB10 million	–	100	Note (vi)
Beijing GOME International Wine Trade Co., Ltd (i) 北京國美國際酒業貿易有限公司	PRC	RMB10 million/ RMB100 million	–	60	Wine trade
Shanghai Minrong Investment Co., Ltd (i) 上海民融投資有限公司	PRC	RMB80 million	–	100	Note (vi)
Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") (xii) 北京匯海天韻商務諮詢有限公司	PRC	RMB3 million	–	100	Note (vi)
Tianjin GOME Warehousing Co., Ltd. (i) 天津國美倉儲有限公司	PRC	RMB50 million	–	100	Note (x)
Jiaxing Ruohui Investment Management Co., Ltd. (xii) 嘉興若薈投資管理有限公司	PRC	RMB100 million	–	100	Note (vi)
Beijing GOME Meijia Technology Co., Ltd. (xii) 北京國美美嘉科技有限公司	PRC	RMB3.5 million/ RMB10 million	–	100	Note (vi)

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31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tianjin Pengze Real Estate Company Limited (i) 天津鵬澤置業有限公司	PRC	RMB83 million	–	100	Property holding
Tianjin Tonglve Enterprise Consultancy Co., Ltd. (i) 天津通略企業管理諮詢有限公司	PRC	RMB50 million	–	100	Note (vi)
Tianjin Zhansheng Ruida Logistics Co., Ltd. (i) 天津戰聖瑞達物流有限公司	PRC	RMB20 million	–	100	Note (iv)
Chongqing Pengsheng Jiayue Trading Co., Ltd. (i) 重慶鵬聖嘉悅商貿有限公司	PRC	RMB50 million	–	100	Note (iv)
Pengda Shangye Baoli (Tianjin) Co., Ltd. (i) 鵬達商業保理(天津)有限公司	PRC	RMB50 million	–	100	Note (v)
Hainan GOME Electrical Appliance Company Limited (i) 海南國美電器有限公司	PRC	RMB20 million	–	100	Note (iii)
Beijing GOME Big Data Technology Co., Ltd. (i) (xii) 北京國美大數據技術有限公司	PRC	RMB50 million	–	100	Note (xi)
Harbin GOME Technology Co., Ltd. (i) 哈爾濱國美科技有限公司	PRC	RMB45 million	–	100	Note (iii)
Shantou GOME Logistics Company Limited (i) 汕頭市國美物流有限公司	PRC	RMB20 million	–	100	Note (iv)
Xi'an GOME Anxun Internet Technology Co., Ltd. (i) 西安國美安迅網絡科技有限公司	PRC	RMB50 million	–	100	Note (x)
Guangzhou GOME Information Technology Co., Ltd. (i) 廣州國美信息科技有限公司	PRC	RMB50 million	–	100	Property holding

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chongqing Sheng'an Tonglve Trading Co., Ltd. (i) 重慶盛安通略商貿有限公司	PRC	RMB50 million	–	100	Note (iv)
Beijing Ourunlang Consultancy Co., Ltd. 北京歐潤朗諮詢服務有限公司	PRC	RMB132 million	–	100	Note (v)
China Eagle Capital Co. Limited	Hong Kong	HK$10,000	–	100	Note (vi)
Capital Realty Development Company Limited	Hong Kong	HK$100,000	–	100	Property holding
Ever Castle International Limited 恒堡國際有限公司	British Virgin Islands	US$1	–	100	Note (vi)

Notes:

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

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

(iii) Retailing of electrical appliances and consumer electronic products

(iv) Provision of logistics and procurement services

(v) Provision of business management services

(vi) Investment holding

(vii) Retailing of mobile phones and accessories

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

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

(x) Provision of storage and delivery services

(xi) Provision of IT development and services

(xii) The Company does not have legal ownership in equity of Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") or its subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and its other legally owned subsidiaries. As a result, these structured entities are treated as subsidiaries of the Company and their financial statements have been consolidated by the Company.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and financial assets. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Despite that the Group had net current liabilities of RMB3,395,919,000, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, taking into account the Group's cash flow projection and the following:

(a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group's principal bankers; and

(b) realisation of certain investments or properties.

In addition, the Group will consider equity or debt financing when necessary.

Accordingly, these financial statements have been prepared on the going concern basis which assumes, inter alia, the realisation of assets and satisfaction of liabilities in the normal course of business.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

Notes to Financial Statements

31 December 2018

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to IFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any share-based payment transactions with net settlement features for withholding tax, and there is no modification of the terms and the conditions of the Group's cash-settled share-based payment transactions.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement		Reclassification		Revaluation	IFRS 9 measurement	
	Category	Amount	Note (i)	Note (ii)		Amount	Category
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets							
Financial assets designated at fair value through other comprehensive income	N/A	–	746,085	–	–	746,085	FVOCI[1] (equity)
Other investments	AFS[2]	1,956,320	(746,085)	(1,210,235)	–	–	N/A
Equity investments at fair value through profit or loss	AFS	3,748,709	–	(3,748,709)	–	–	N/A
Financial assets at fair value through profit or loss	N/A	–	–	4,958,944	33,464	4,992,408	FVPL[3] (mandatory)
Trade and bills receivables	L&R[4]	186,370	–	–	–	186,370	AC[5]
Financial assets included in prepayments, other receivables and other assets	L&R	1,877,562	–	–	–	1,877,562	AC
Due from related companies	L&R	349,953	–	–	–	349,953	AC
Entrusted loan	L&R	500,000	–	–	–	500,000	AC
Pledged deposits	L&R	6,735,401	–	–	–	6,735,401	AC
Cash and cash equivalents	L&R	9,243,844	–	–	–	9,243,844	AC
		24,598,159	–	–	33,464	24,631,623	

1 FVOCI: Financial assets designated at fair value through other comprehensive income

2 AFS: Available-for-sale investments

3 FVPL: Financial assets at fair value through profit or loss

4 L&R: Loans and receivables

5 AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous other investments as financial assets designated at fair value through other comprehensive income.

(ii) The Group has reclassified its unquoted investments and quoted equity shares to financial assets at fair value through profit or loss as these equity investments did not pass the contractual cash flow characteristics test in IFRS 9.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

Impairment

On the date of initial application of IFRS 9, the Group reconciled the opening impairment allowances under IAS 39 to the opening loss allowances as at 1 January 2018 determined in accordance with IFRS 9, and concluded the amendments have had no impact on the opening balance of loss allowances.

Impact on reserves and retained earnings

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	IAS 39 RMB'000	Reclassification RMB'000	Revaluation RMB'000	Tax effect RMB'000	IFRS 9 RMB'000
Reserves					
Other investments revaluation reserve	116,674	(116,674)	–	–	–
Financial asset revaluation reserve	–	116,674	–	–	116,674
	116,674	–	–	–	116,674
Retained earnings	5,912,632	–	33,464	(10,591)	5,935,505

The effect resulting from this reclassification on the Group's retained earnings as at 1 January 2018 amounted to RMB22,873,000 after considering the income tax impact of RMB10,591,000.

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts,* IAS 18 *Revenue and related interpretations* and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

Notes to Financial Statements

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

There is no adjustment to the opening balance of retained earnings as at 1 January 2018 and the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	Increase/ (decrease) RMB'000
Assets		
Inventories	*(i)*	**(96,660)**
Prepayments, other receivables and other assets	*(i)*	**96,660**
Total assets		**–**
Liabilities		
Other payables and accruals	*(i), (ii)*	**(690,906)**
Contract liabilities		**690,906**
Total liabilities		**–**
Net assets		**–**

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows or loss per share.

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Revenue			
Sales of goods	**64,356,031**	**64,356,031**	**–**
Cost of sales	**(54,616,715)**	**(54,904,859)**	**288,144**
Other income			
Income from suppliers, net	**–**	**288,144**	**(288,144)**

Consolidated statement of financial position as at 31 December 2018:

	Notes	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Assets				
Inventories	*(i)*	**8,221,237**	**8,290,296**	**(69,059)**
Prepayments, other receivables and other assets	*(i)*	**5,807,707**	**5,738,648**	**69,059**
Total assets		**14,028,944**	**14,028,944**	**–**
Liabilities				
Other payables and accruals	*(i),(ii)*	**3,264,999**	**3,955,644**	**(690,645)**
Contract liabilities	*(i),(ii)*	**690,645**	**–**	**690,645**
Total liabilities		**3,955,644**	**3,955,644**	**–**

The Group's contracts with customers for the sale of products generally include one performance obligation except for the royalty points programme. The Group has concluded that revenue from the sale of products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

(i) Sale of products with variable consideration

Some contracts for the sale of products provide customers with a right of return and subject to the royalty points programme. Before adopting IFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns. If revenue could not be reliably measured, the Group deferred the recognition of revenue until the uncertainty was resolved. Under IFRS 15, rights of return give rise to variable consideration which is determined using the expected value method.

Rights of return

For a contract that provides a customer with a right to return the goods within a specified period. Before the adoption of IFRS 15, the amount of revenue related to the expected returns was deferred and recognised as deferred revenue which was included in other payables and accruals in the statement of financial position with a corresponding adjustment to cost of sales. The initial carrying amount of goods expected to be returned was included in inventories.

Upon adoption of IFRS 15, the Group recognised a right-of-return asset which is included in prepayments, other receivables and other assets and is measured at the former carrying amount of the goods to be returned less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. In addition, a refund liability, which is included in other payables and accruals, was recognised based on the amount that the Group expects to return to the customers using the expected value method. Accordingly, the Group reclassified deferred revenue of RMB114,316,000 to refund liabilities as included in other payables and accruals and reclassified inventories of RMB96,660,000 to right-of-return assets as included in prepayments, other receivables and other assets as at 1 January 2018. As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in prepayments, other receivables and other assets and a decrease in inventories by RMB69,059,000 and refund liabilities were increased of RMB81,467,000 included in other payables and accruals.

Loyalty points programme

The Group operates a loyalty points programme, which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for free products, subject to a minimum number of points obtained. Prior to the adoption of IFRS 15, the loyalty points programme offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty points programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The deferred revenue related to this loyalty points programme amounting to RMB207,846,000 and RMB170,422,000 were reclassified to contract liabilities as at 31 December 2018 and at 1 January 2018, respectively, under IFRS 15.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

Loyalty points programme (Continued)

(ii) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB482,799,000 and RMB520,484,000 from other payables and accruals to contract liabilities as at 31 December 2018 and 1 January 2018, respectively, in relation to the consideration received from customers in advance.

(iii) Consideration income from suppliers

Upon adoption of IFRS 15, income from suppliers with no distinct performance obligation identified was reclassified from other income to deduction of cost of sales.

(d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC 22, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

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

2 Effective for annual periods beginning on or after 1 January 2020

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

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 16, replaces IAS 17 *Leases,* IFRIC-4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of IFRS16. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB17,155,023,000 (31 December 2017: RMB15,351,687,000).

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

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

Or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

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

Intangible assets (other than goodwill)

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

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

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

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

***Initial recognition and measurement* (Continued)**

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement **(Continued)**

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as financial assets designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Financial assets designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Initial recognition and measurement **(Continued)**

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

Loans and receivables

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

Available-for-sale financial investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Available-for-sale financial investments (Continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the other investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the other investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

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

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) (Continued)

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

***General approach* (Continued)**

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost **(Continued)**

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

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

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

Available-for-sale financial investments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasury shares

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of products provide customers with rights of return and are subject to the loyalty points programme, which give rise to variable consideration.

(a) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

***Revenue from contracts with customers* (Continued)**

Sale of products (Continued)

(b) Loyalty points programme

Loyalty points programme allows customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for free products, subject to a minimum number of points obtained. The Group concluded that under IFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price.

Other income

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

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

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

- Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Right-of-return assets (applicable from 1 January 2018)

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

Refund liabilities (applicable from 1 January 2018)

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities included in other payables and accruals (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

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

Other employee benefits

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits (Continued)

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

Termination benefits

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Inventories

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

Operating lease arrangements – Group as lessee

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

Classification between investment properties and owner-occupied properties

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

Tax provisions

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB11,924,919,000 (2017: RMB14,110,000,000). Further details are given in note 15 to the financial statements.

Estimation of fair value of investment properties

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

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

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

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

The carrying amount of investment properties as at 31 December 2018 was RMB907,044,000 (2017: RMB901,285,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to tax losses at 31 December 2018 was RMB42,381,000 (2017: RMB11,389,000). The amount of unrecognised tax losses at 31 December 2018 was RMB8,215,908,000 (2017: RMB5,936,060,000). Further details are given in note 22 to the financial statements.

Assessment of useful lives of property and equipment

The Group has estimated the useful lives of the property and equipment to be 4 to 40 years. Depreciation of items of property and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property and equipment as at 31 December 2018 was RMB6,541,780,000 (2017: RMB6,398,106,000). Further details are given in note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

4. OPERATING SEGMENT INFORMATION (Continued)

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

	2018 RMB'000	2017 RMB'000
Segment revenue		
Sales to external customers	**64,356,031**	71,574,873
Segment results	**(4,360,955)**	(395,416)
Reconciliation:		
Finance income	**341,503**	294,803
Gains on equity investments at fair value through profit or loss	**–**	213,594
Dividend income from financial assets at fair value through profit or loss	**5,447**	10,938
Unallocated income	**6,083**	6,309
Finance costs	**(861,238)**	(691,860)
Net loss on financial assets at fair value through profit or loss	**(93,021)**	–
Share of losses of associates	**(216,864)**	(19,976)
Corporate and other unallocated expenses	**(234,692)**	(217,253)
Loss before tax	**(5,413,737)**	(798,861)

	2018 RMB'000	2017 RMB'000
Segment assets	**36,100,666**	41,285,491
Reconciliation:		
Corporate and other unallocated assets	**24,641,125**	21,938,528
Total assets	**60,741,791**	63,224,019
Segment liabilities	**27,099,102**	28,940,045
Reconciliation:		
Corporate and other unallocated liabilities	**22,558,925**	16,757,748
Total liabilities	**49,658,027**	45,697,793
Other segment information		
Depreciation and amortisation	**834,693**	888,511
Capital expenditure*	**1,040,249**	1,039,269

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

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4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2018 **RMB'000**	2017 RMB'000
Mainland China	**64,356,031**	71,574,873

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

(b) Non-current assets

	2018 **RMB'000**	**2017** **RMB'000**
Mainland China	**21,751,050**	24,332,621
Hong Kong	**42,857**	37,920
Europe	**3,781**	3,781
United States of America	**265,578**	271,784
	22,063,266	24,646,106

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets, financial assets designated at fair value through other comprehensive income and financial assets at fair value through profit or loss.

5. BUSINESS COMBINATION

On 3 April 2018, the Group acquired 100% of the equity interests of 天津國美倉儲有限公司 (Tianjin GOME Warehousing Co., Ltd., or "Tianjin GOME Warehousing"), an unlisted company principally engaged in the business of warehousing services, at a cash consideration of RMB90 million.

Tianjin GOME Warehousing was ultimately controlled by Ms. Huang Xiu Hong, a close family member of Mr. Wong Kwong Yu ("Mr. Wong"), who is the controlling shareholder of the Group. Therefore, the Group accounted for this transaction as business combination by applying the acquisition method.

The carrying amounts of the assets and liabilities of Tianjin GOME Warehousing as at the date of acquisition were:

	Carrying amounts recognised on acquisition RMB'000
Current assets	153
Buildings	94,601
Land use rights	63,290
Total liabilities	(68,434)
Total identifiable net assets at carrying amount	89,610
Satisfied by:	
Cash	89,610

An analysis of the cash flows in respect of the acquisition of Tianjin GOME Warehousing is as follows:

	RMB'000
Cash consideration	(89,610)
Cash and cash equivalents acquired	88
Net outflow of cash and cash equivalents	(89,522)

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6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue		
Sale of electrical appliances and consumer electronic products	**64,356,031**	71,574,873
Other income		
Income from suppliers, net*	**–**	429,281
Other service fee income	**330,264**	356,218
Gross rental income	**264,467**	243,244
Income from installation	**116,612**	190,494
Government grants**	**102,807**	151,784
Other income from telecommunications service providers	**102,676**	94,673
Commission income from providing online platforms	**50,448**	77,933
Income from compensation	**16,069**	33,820
Income from financial products during the year	**11,974**	93,131
Dividends income from financial assets at fair value through profit or loss	**5,447**	10,938
Income from disposal of other investments	**–**	3,788
Others	**69,305**	85,294
	1,070,069	1,770,598
Gains		
Fair value gain on investment properties	**–**	28,129
Fair value gains, net:		
Equity investments at fair value through profit or loss	**–**	213,594
	1,070,069	2,012,321

* Upon adoption of IFRS 15, income from suppliers with no distinct performance obligation identified was reclassified from other income to deduction of cost of sales.

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

6. REVENUE, OTHER INCOME AND GAINS (Continued)

(i) Disaggregated revenue information

The following table shows the amounts of revenue from contracts with customers:

	2018 RMB'000
Sale of electrical appliances and consumer electronic products – offline	60,412,074
Sale of electrical appliances and consumer electronic products – online	3,943,957
	64,356,031

(ii) Performance obligations

Sale of products

The performance obligation is satisfied upon delivery of the products where payment in advance is normally required. Some contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	520,484
Loyalty points programme	160,954
	681,438

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	RMB'000
Within one year	679,098
More than one year	11,547
	690,645

The remaining performance obligations expected to be recognised in more than one year relate to loyalty points programme that are to be satisfied within three years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

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7. LOSS BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**54,616,715**	60,519,950
Depreciation	*13*	**753,267**	811,330
Amortisation of other intangible assets*	*16*	**45,890**	43,881
Amortisation of prepaid land lease payments	*20*	**35,536**	33,300
Loss on disposal of property and equipment ***		**23,486**	91,196
Net loss on financial assets at fair value through profit or loss		**93,021**	–
Minimum lease payments under operating leases		**4,408,910**	4,431,414
Impairment losses on property and equipment***		**87,566**	374,204
Impairment losses on goodwill***	*15*	**2,185,081**	214,966
Impairment losses on financial assets****		**40,622**	–
Foreign exchange differences, net		**140,836**	154,375
Auditors' remuneration			
– audit services		**7,700**	7,413
– non-audit services		**–**	1,834
Staff costs excluding directors' and chief executive's remuneration:			
Wages, salaries and bonuses		**3,097,856**	2,867,010
Pension scheme contributions**		**669,671**	649,434
Social welfare and other costs		**92,646**	95,940
Share award expense*****	*35*	**(8,370)**	9,011
		3,851,803	3,621,395
Net fair value loss/(gain) on investment properties	*14*	**6,649**	(28,129)

Notes:

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

** At 31 December 2018, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2017: Nil).

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

**** The item comprises the impairment losses on trade receivables amounting to RMB20,845,000 (note 24) and impairment losses on prepayments, other receivables and other assets amounting to RMB19,777,000 (note 25).

***** During the year 2017, the Group granted share appreciation rights ("SARs") under the share award scheme to employees, executives and officers as part of their remuneration package, whereby the employees, executives and officers will become entitled to a future cash payment, based on the increase in the Company's share price from the exercisable price. The cost of SARs is measured at fair value using the binomial tree model, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

8. FINANCE (COSTS)/INCOME

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

	Notes	2018 RMB'000	2017 RMB'000
Finance costs:			
Interest expense on bank loans		**(153,366)**	(37,389)
Interest expense on borrowings from related parties	*42 (a)(iv)*	**(82,371)**	(53,658)
Interest expense on bonds payable	*32*	**(666,614)**	(597,451)
Interest expense on discounted bills		**(45,995)**	–
Interest expense on finance lease payable	*33*	**(1,589)**	(4,289)
Total interest expense on financial liabilities not at fair value through profit or loss		**(949,935)**	(692,787)
Less: Interest capitalised		**88,697**	927
		(861,238)	(691,860)
Finance income:			
Bank interest income		**341,503**	294,803

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2018 RMB'000	2017 RMB'000
Fees	**2,028**	2,215
Other emoluments:		
Salaries, allowances and other expenses	**1,522**	1,868
Share award expense	**(83)**	83
Pension scheme contributions	**55**	50
	1,494	2,001

Notes to Financial Statements

31 December 2018

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

(a) Independent non-executive directors

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

	Note	2018 RMB'000	2017 RMB'000
Mr. Lee Kong Wai, Conway		**338**	346
Mr. Ng Wai Hung	*(ii)*	**–**	139
Ms. Liu Hong Yu		**338**	346
Mr. Wang Gao		**338**	346
		1,014	1,177

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2017: Nil).

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

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

2018	Fees RMB'000	Salaries, allowances and other expenses RMB'000	Share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive director:					
Mr. Zou Xiao Chun	–	338	–	–	338
	–	338	–	–	338
Non-executive directors:					
Mr. Zhang Da Zhong	338	–	–	–	338
Ms. Huang Xiu Hong	338	–	–	–	338
Mr. Yu Sing Wong	338	–	–	–	338
	1,014	–	–	–	1,014
Chief executive:					
Mr. Wang Jun Zhou	–	1,184	(83)	55	1,156
	1,014	1,522	(83)	55	2,508

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

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

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

(c) Five highest paid individuals

The five highest paid individuals during the year included the chief executive (2017: the chief executive). Details of the chief executive's remuneration are set out above. Details of the remuneration for the year of the remaining four (2017: four) highest paid individuals who are neither a director nor the chief executive of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and other expenses	**5,134**	5,604
Pension scheme contributions	**140**	201
Share award expense	**(273)**	273
	5,001	6,078

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

	Number of individuals	
	2018	2017
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,297,505 to RMB1,730,675)	**4**	4

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10. PENSION SCHEMES

All of the Group's PRC subsidiaries are required to participate in the employee retirement benefit schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 8% to 20% of the employees' salaries for the year ended 31 December 2018 (2017: 11% to 21%).

All the Hong Kong subsidiaries of the Group are required to participate in the MPF scheme under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group is required to make contributions for those employees who are registered as permanent residents in Hong Kong and are within the scope of the relevant Hong Kong regulations at the lesser of RMB18,000 and 5% of the employees' salaries for the years ended 31 December 2018 and 2017.

The Group's contributions to pension schemes for the year ended 31 December 2018 amounted to approximately RMB669,671,000 (2017: RMB649,484,000).

11. INCOME TAX EXPENSE

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

	2018 **RMB'000**	2017 RMB'000
Current income tax	**120,731**	303,660
Deferred income tax *(note 22)*	**(40,589)**	25,129
Total tax charge for the year	**80,142**	328,789

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

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

Under the relevant PRC income tax law, except for certain preferential treatments available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (2017: 25%) on their respective taxable income. During the year, 78 entities (2017: 48 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

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

As the Group had assessable profits arising in Hong Kong for 2018, a provision for Hong Kong profits tax of RMB5,000 has been made for the year ended 31 December 2018 (2017: RMB46,000).

11. INCOME TAX EXPENSE (Continued)

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

2018	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Loss before tax	(470,654)		(4,943,083)		(5,413,737)	
Income tax at the statutory tax rate	(77,658)	16.5	(1,235,771)	25.0	(1,313,429)	24.3
Tax effect of preferential tax rates	–		(25,289)		(25,289)	
Income not subject to tax	(16,099)		(1,093)		(17,192)	
Expense not deductible for tax	93,762		609,506		703,268	
Tax losses utilised from previous years	–		(24,084)		(24,084)	
Tax losses not recognised	–		756,868		756,868	
Tax charge at the Group's effective rate	5		80,137		80,142	

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

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12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 20,605,433,000 (2017: 21,390,244,000) in issue during the year.

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

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2018 and 2017 as the impact of the warrants and share options outstanding had no dilutive effect on the basic loss per share amounts presented.

The calculations of the basic and diluted loss per share are based on:

	2018 RMB'000	2017 RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent used in the basic and diluted loss per share calculation	**(4,886,895)**	(449,895)

	Number of shares	
	2018 '000	2017 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**20,605,433**	21,390,244

13. PROPERTY AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Aircraft under a financial lease RMB'000	Total RMB'000
31 December 2018							
At 31 December 2017 and 1 January 2018:							
Cost	5,915,249	2,850,218	2,220,805	104,371	353,330	340,138	11,784,111
Accumulated depreciation and impairment	(1,292,542)	(2,068,365)	(1,809,237)	(82,641)	–	(133,220)	(5,386,005)
Net carrying amount	4,622,707	781,853	411,568	21,730	353,330	206,918	6,398,106
At 1 January 2018, net of accumulated depreciation and impairment:	4,622,707	781,853	411,568	21,730	353,330	206,918	6,398,106
Additions	24,493	409,060	190,716	7,174	408,806	–	1,040,249
Acquisition of subsidiaries	94,601	–	–	–	–	–	94,601
Disposals	–	(75,066)	(73,593)	(1,684)	–	–	(150,343)
Impairment	–	(87,566)	–	–	–	–	(87,566)
Depreciation provided during the year	(165,642)	(381,247)	(164,389)	(7,503)	–	(34,486)	(753,267)
At 31 December 2018, net of accumulated depreciation and impairment	4,576,159	647,034	364,302	19,717	762,136	172,432	6,541,780
At 31 December 2018:							
Cost	6,034,343	3,051,071	2,134,821	101,758	762,136	340,138	12,424,267
Accumulated depreciation and impairment	(1,458,184)	(2,404,037)	(1,770,519)	(82,041)	–	(167,706)	(5,882,487)
Net carrying amount	4,576,159	647,034	364,302	19,717	762,136	172,432	6,541,780

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13. PROPERTY AND EQUIPMENT (Continued)

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

Certain of the buildings of the Group in Mainland China were pledged as security for bills payable (note 28) and interest-bearing bank loans (note 31) of the Group as at 31 December 2018. The aggregate carrying value of the Group's pledged buildings attributable to the Group as at 31 December 2018 amounted to RMB1,517,549,000 (December 2017: RMB1,399,953,000).

During 2018, in view of the fact that the business of certain subsidiaries of the Group has been loss making and their underperformance in the current year, management determined that indicators of impairment existed for the related cash-generating units. The recoverable amount of the related cash-generating units was insignificant and the value in use was calculated by applying a discount rate of 12.8% (2017 discount rate:13.6%). Impairment losses of RMB87,566,000 were recognised for the related leasehold improvements, equipment and fixtures (December 2017: RMB374,204,000).

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14. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**901,285**	605,030
Additions	**–**	280,939
Net (loss)/gain from a fair value adjustment	**(6,649)**	28,129
Exchange realignment	**12,408**	(12,813)
Carrying amount at 31 December	**907,044**	901,285

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

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Beijing Northern Yashi Assets Appraisal Co., Ltd. and B.I. Appraisals Limited, independent firms of professionally qualified valuers, using the income approach and direct comparison approach, as at 31 December 2018. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The Group's management has discussed with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

As at 31 December 2018, investment properties of approximately RMB38,553,000 (31 December 2017: RMB35,944,000) were located in Hong Kong under medium term leases, investment properties of approximately RMB265,578,000 (31 December 2017: RMB271,784,000) were located in New York, the United States of America and investment properties of approximately RMB602,913,000 (31 December 2017: RMB593,557,000) were located in Mainland China under medium term leases.

Certain of the investment properties of the Group in Mainland China were pledged as security for bills payable (note 28) and interest-bearing bank loans (note 31) of the Group as at 31 December 2018. The aggregate fair value of the Group's pledged investment properties as at 31 December 2018 amounted to RMB365,617,000 (31 December 2017: RMB482,072,000).

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14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy

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

	Fair value measurement as at 31 December 2018 using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	868,491	868,491
Industrial property and car park	–	–	38,553	38,553
	–	–	907,044	907,044

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

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

	Commercial properties RMB'000	Industrial property and car park RMB'000
Carrying amount at 1 January 2017	570,145	34,885
Additions	280,939	–
Exchange realignment	(10,403)	(2,410)
Net gain from a fair value adjustment recognised in other income and gains	24,660	3,469
Carrying amount at 31 December 2017	865,341	35,944
Exchange realignment	**12,408**	**–**
Net (loss)/gain from a fair value adjustment recognised in other income and gains	**(9,258)**	**2,609**
Carrying amount at 31 December 2018	**868,491**	**38,553**

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

	Valuation technique	Significant unobservable inputs	Range of weighted average 2018	2017
Commercial properties located in Mainland China	Income approach	Estimated rental value (RMB per square metre and per month)	**39.0 – 285.0**	39.0 – 285.0
		Rental growth (per annum)	**1.5% – 2.0%**	1.5% – 2.0%
		Long term vacancy rate	**3.0% – 5.0%**	3.0% – 5.0%
		Discount rate	**6.0%**	6.0%
Industrial property and car park located in Hong Kong	Direct comparison approach	Market value (RMB per square metre)	**29,125**	27,143
Commercial properties located in New York	Direct comparison approach	Market value (RMB per square metre)	**204,197**	211,506

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14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

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

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

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

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

15. GOODWILL

	2018 RMB'000	2017 RMB'000
At 1 January:		
Cost	**14,373,742**	14,373,742
Accumulated impairment	**(263,742)**	(48,776)
Net carrying amount	**14,110,000**	14,324,966
Cost at 1 January, net of accumulated impairment	**14,110,000**	14,324,966
Impairment during the year	**(2,185,081)**	(214,966)
At 31 December	**11,924,919**	14,110,000
At 31 December:		
Cost	**14,373,742**	14,373,742
Accumulated impairment	**(2,448,823)**	(263,742)
Net carrying amount	**11,924,919**	14,110,000

15. GOODWILL (Continued)

Impairment testing of goodwill

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

	2018 RMB'000	2017 RMB'000
China Paradise Electronics Retail Limited ("China Paradise") 永樂(中國)電器銷售有限公司	**3,920,393**	3,920,393
Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances") 北京市大中家用電器連鎖銷售有限公司	**3,130,136**	3,130,136
Shaanxi Cellstar Telecommunication Retail Chain Company Limited 陝西蜂星電訊零售連鎖有限責任公司	**60,428**	60,428
Shenzhen GOME Electrical Appliances Company Limited ("Shenzhen GOME") and Guangzhou GOME Electrical Appliances Company Limited ("Guangzhou GOME") 深圳市國美電器有限公司和廣州市國美電器有限公司	**22,986**	22,986
Shandong Longji Island Construction Company Limited 山東龍脊島建設有限公司	**8,000**	8,000
Wuhan GOME Electrical Appliances Company Limited 武漢國美電器有限公司	**7,300**	7,300
Jiangsu Pengrun GOME Electrical Appliance Company Limited and Nanjing Pengze Investment Company Limited 江蘇鵬潤國美電器有限公司和南京鵬澤投資有限公司	**5,874**	5,874
Beijing Huihai Tianyun Commercial Consultancy Co., Ltd. ("Huihai") 北京匯海天韻商務諮詢有限公司	**15,790**	15,790
Artway Development Limited ("Artway") 藝偉發展有限公司	**6,987,869**	6,987,869
Tengda Technology Co., Ltd. ("Tengda") 江西騰達科技有限公司	**214,966**	214,966
	14,373,742	14,373,742
Impairment	**(2,448,823)**	(263,742)
	11,924,919	14,110,000

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections prepared based on financial budgets as approved by management which cover a period of five years. The discount rate applied to the cash flow projections is 12.80% (2017: 13.60%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2017: 3%).

During 2018, in view of the underperformance of China Paradise and Artway, impairment losses of RMB1,206,682,000 and RMB978,399,000 were recognised for the goodwill in relation to the cash-generating unit with carrying amounts of RMB3,920,393,000 and RMB6,987,869,000, respectively.

As at 31 December 2018, the impairment was mainly related to China Paradise, Artway, Tengda, Shenzhen GOME and Guangzhou GOME and Huihai in the amounts of RMB1,206,682,000, RMB978,399,000, RMB214,966,000, RMB22,986,000 and RMB15,790,000, respectively.

Key assumptions used in the value in use calculations

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

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

Sensitivity to changes in assumptions

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

16. OTHER INTANGIBLE ASSETS

	Trademarks RMB'000
31 December 2018	
At 31 December 2017 and 1 January 2018:	
Cost	**692,607**
Accumulated amortisation	**(304,085)**
Net carrying amount	**388,522**
Cost at 1 January 2018, net of accumulated amortisation	**388,522**
Amortisation provided during the year	**(45,890)**
At 31 December 2018	**342,632**
At 31 December 2018:	
Cost	**692,607**
Accumulated amortisation	**(349,975)**
Net carrying amount	**342,632**
31 December 2017	
At 31 December 2016 and 1 January 2017:	
Cost	692,607
Accumulated amortisation	(260,204)
Net carrying amount	432,403
Cost at 1 January 2017, net of accumulated amortisation	432,403
Amortisation provided during the year	(43,881)
At 31 December 2017	388,522
At 31 December 2017:	
Cost	692,607
Accumulated amortisation	(304,085)
Net carrying amount	388,522

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

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17. INVESTMENTS IN ASSOCIATES

	Note	2018 RMB'000	2017 RMB'000
Share of net assets		**184,103**	103,908
Goodwill on acquisition	*(i)*	**97,776**	97,776
		281,879	201,684

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

Note:

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

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

	Note	2018 RMB'000	2017 RMB'000
Aggregate carrying amount at 1 January		**201,684**	17,000
Capital injection		**297,059**	204,660
Share of the associates' loss	*(ii)*	**(216,864)**	(19,976)
Aggregate carrying amount at 31 December		**281,879**	201,684

(ii) In October 2018, the Group converted its creditor's rights of RMB294,000,000 of 國美通訊(浙江)有限公司 ("Gome Telecom (Zhejiang) Co., Ltd." or "Gome Telecom Zhejiang"), a company mainly producing telecommunications products and equipment, into capital injection and shared loss amounting to RMB194,780,000 for the year of 2018.

18. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ OTHER INVESTMENTS

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Financial assets designated at fair value through other comprehensive income			
Quoted equity shares, at fair value			
Investment in Gome Telecom	*(i)*	**406,865**	–
Investment in MTC	*(ii)*	**143,420**	–
		550,285	–
Other investments			
Quoted equity shares, at fair value			
Investment in Gome Telecom	*(i)*	**–**	475,851
Investment in MTC	*(ii)*	**–**	270,234
Unquoted equity investments, at cost		**–**	1,210,235
		–	1,956,320

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

Revaluation reserve of RMB116,674,000 was reclassified from other investment revaluation reserve to financial asset revaluation reserve for the opening balances in equity at 1 January 2018.

Notes:

(i) During 2018, the Group further purchased 10,492,065 shares of 國美通訊設備股份有限公司 ("Gome Telecom Equipment Co., Ltd." or "Gome Telecom") with a cash consideration of RMB107,514,000. The balance as at 31 December 2018 represented the fair value of the Group's investments in 50,479,465 shares, representing approximately 19.99% of the outstanding issued shares of Gome Telecom. Gome Telecom is a company established in the PRC and listed on the Shanghai Stock Exchange. Upon adoption of IFRS 9, the Group reclassified the investment from other investments to financial assets designated at fair value through other comprehensive income recognised as a separate component of equity.

Of the seven directors of Gome Telecom, two were nominated by the Group as at 31 December 2018 (31 December 2017: two). With reference to Gome Telecom's memorandum and articles of association and by taking into account the current shareholding structure of Gome Telecom, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Gome Telecom or appoint directors to Gome Telecom and thus the Group does not have control or significant influence over Gome Telecom.

As at 31 December 2018, the fair value of this investment was based on the quoted market price, which was RMB8.06 (31 December 2017: RMB11.90) per share. During 2018, the loss in respect of this investment recognised in other comprehensive income amounted to RMB176,500,000 (2017: RMB209,534,000).

(ii) During 2016, the Group subscribed 30,193,814 shares of 深圳兆馳股份有限公司 ("Shenzhen MTC Co., Ltd." or "MTC") with a consideration of RMB370,780,000, representing approximately 1.67% of the issued shares. MTC is a company established in the PRC and listed on the Shenzhen Stock Exchange. Upon adoption of IFRS 9, the Group reclassified the investment from other investments to financial assets designated at fair value through other comprehensive income recognised as a separate component of equity.

On 8 June 2017, MTC declared and paid a cash dividend of RMB0.25 for every 10 shares and a stock dividend of 15 shares for every 10 shares held by the shareholders. As at 31 December 2018, the Group held 75,484,535 shares, which represented 1.67% of the issued shares of MTC.

As at 31 December 2018, the fair value of this investment was based on the quoted market price, which was RMB1.90 (31 December 2017: RMB3.58) per share.

During the year ended 31 December 2018, the loss in respect of this investment recognised in other comprehensive income amounted to RMB126,814,000 (2017: RMB30,496,000).

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Financial assets at fair value through profit or loss			
Quoted equity shares at fair value			
Investment in Hillhouse-MTN	*(i)*	**812,103**	–
Other quoted shares		**650,521**	–
Total current		**1,462,624**	–
Unquoted investments, at fair value	*(ii)*	**851,668**	–
Total non-current		**851,668**	–
Equity investments at fair value through profit or loss			
Quoted equity shares at fair value		**–**	3,748,709
Total		**2,314,292**	3,748,709

Notes:

(i) The Group acts as a limited partner of Hillhouse MTN-III Co-Invest Holdings L.P. ("Hillhouse-MTN"), which is a private equity fund since 29 November 2017. Hillhouse-MTN made an investment in Internet Plus Holding Ltd., which was well recognized as "Meituan", a leading service e-commerce platform in China. The fair value of the investment in Hillhouse-MTN as at 1 January 2018 was estimated by using the prior transaction method with reference to the recent financing of Meituan. On 20 September 2018, Meituan was listed on the Stock Exchange. The fair value of the investment was estimated by using the quoted price since then. The investment with carrying value of RMB812,103,000 was pledged as security for other borrowings (note 31) as at 31 December 2018.

(ii) As at 31 December 2018, unquoted investments with a carrying amount of RMB851,668,000 were stated at fair value through profit or loss.

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20. LEASE PREPAYMENTS AND DEPOSITS

	Notes	2018 RMB'000	2017 RMB'000
Prepaid land lease payments	*(i)*	**1,382,400**	1,299,063
Rental prepayments and deposits	*(ii)*	**678,831**	843,665
		2,061,231	2,142,728

Notes:

(i) Prepaid land lease payments

	Note	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January		**1,332,754**	1,285,888
Additions		**58,132**	80,166
Acquisition of a subsidiaries		**63,290**	–
Recognised during the year		**(35,536)**	(33,300)
Carrying amount at 31 December		**1,418,640**	1,332,754
Current portion included in prepayments, other receivables and other assets	*25*	**(36,240)**	(33,691)
Non-current portion		**1,382,400**	1,299,063

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

Certain of prepaid land lease payments of the Group in Mainland China were pledged as security for interest-bearing bank loans (note 31) of the Group as at 31 December 2018. The aggregate carrying value of the Group's pledged prepaid land lease payments attributable to the Group as at 31 December 2018 amounted to RMB1,136,997,000 (December 2017: Nil).

(ii) The balances at 31 December 2018 and 2017 represented the non-current portion of rental prepayments and deposits.

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21. ENTRUSTED LOAN

	2018 RMB'000	2017 RMB'000
Entrusted loan	**500,000**	500,000

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

22. DEFERRED TAX

	Note	Balance at 1 January 2018 RMB'000	Effect of adoption of IFRS 9	Recognised in the consolidated statement of profit or loss RMB'000	Balance at 31 December 2018 RMB'000
Deferred tax assets:					
Tax losses	*(i)*	11,389	–	30,992	42,381
Fair value adjustment on financial assets at fair value through profit or loss		10,324	137	(8,284)	2,177
Fair value adjustment on investment properties		4,263	–	(3,589)	674
Fair value adjustment on transfer of own-occupied properties to investment properties		22,813	–	–	22,813
		48,789	137	19,119	68,045
Deferred tax liabilities:					
Fair value adjustment arising from acquisition of subsidiaries		366,025	–	(16,645)	349,380
Fair value adjustment on financial assets at fair value through profit or loss		30,236	10,728	(3,575)	37,389
Fair value adjustment on investment properties		25,349	–	(1,250)	24,099
Fair value adjustment on transfer of own-occupied properties to investment properties		39,155	–	–	39,155
		460,765	10,728	(21,470)	450,023

22. DEFERRED TAX (Continued)

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

Note:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB684 million (2017: RMB684 million), that are available indefinitely, and in the PRC of RMB7,532 million (2017: RMB5,252 million), that will expire in one to five years, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Merchandise for resale	**7,959,684**	11,022,120
Consumables	**261,553**	233,327
	8,221,237	11,255,447

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24. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**166,249**	186,370
Impairment	**(20,845)**	–
	145,404	186,370

All of the Group's sales are on a cash basis except for certain bulk sales of merchandise which are credit sales. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Management considers that there is no significant concentration of credit risk. The balances are unsecured and non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date of the trade receivables, is as follows:

	2018 RMB'000	2017 RMB'000
Outstanding balances, aged:		
Within 3 months	**134,571**	140,556
3 to 6 months	**10,069**	45,358
6 months to 1 year	**764**	456
	145,404	186,370

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

24. TRADE RECEIVABLES (Continued)

Impairment under IFRS 9 for the year ended 31 December 2018 **(Continued)**

Set out below is the information about the credit risk exposure on the Group's trade receivables as at 31 December 2018:

	12-month ECLs RMB'000	Lifetime ECLs – not credit impaired financial assets RMB'000	Lifetime ECLs credit impaired financial assets RMB'000	Total RMB'000
At the beginning of year	–	–	–	–
Impairment losses	3,402	–	17,443	20,845
	3,402	–	17,443	20,845

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due			
	Current	Less than 3 months	3 to 6 months	Over 6 months	Total
Expected credit loss rate	0.35%	0.35%	14.18%	100.00%	2.29%
Gross carrying amount (RMB'000)	134,571	10,069	1,476	2,690	148,806
Expected credit losses (RMB'000)	468	35	209	2,690	3,402

Impairment under IAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	70,278
Less than 3 months past due	92,957
Over 3 months past due	23,135
	186,370

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25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2018 RMB'000	2017 RMB'000
Prepaid rentals		**1,237,962**	1,199,384
Prepaid value added tax		**345,964**	496,796
Prepaid expense		**19,675**	18,488
Advances to suppliers		**2,100,309**	1,923,955
Interest receivables		**227,226**	91,618
Right-of-return assets		**69,059**	–
Advances to investees		**361,692**	–
Receivables from payment operators		**611,443**	664,434
Other deposits and receivables	*(i)*	**817,914**	624,714
Current portion of prepaid land lease payments	*20*	**36,240**	33,691
Impairment allowance		**(19,777)**	–
		5,807,707	5,053,080

Set out below is the information about the credit risk exposure on the Group's prepayments, other receivables and other assets as at 31 December 2018:

	12-month ECLs RMB'000	Lifetime ECLs – not credit impaired financial assets RMB'000	Lifetime ECLs credit impaired financial assets RMB'000	Total RMB'000
At the beginning of year	**–**	**–**	**–**	**–**
Impairment losses	**3,386**	**–**	**16,391**	**19,777**
	3,386	**–**	**16,391**	**19,777**

(i) Other deposits and receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

26. DUE FROM/TO RELATED COMPANIES

Due from related companies

	Notes	2018 RMB'000	2017 RMB'000
Due from an associate	*(i)*	–	49,000
Due from other related companies	*(ii)*	**148,712**	300,953
		148,712	349,953

Due to related companies

	Notes	2018 RMB'000	2017 RMB'000
Current liabilities:			
Payables to the GOME Xinda*	*(iii)*	–	38,168
Current portion of non-current item	*42(a)(iv)*	**78,676**	47,463
Payables to other related companies	*(ii)*	**29,731**	36,189
		108,407	121,820
Non-current liabilities:			
Payables to GOME Holding**	*42(a)(iv)*	**1,668,755**	1,586,997
Payables to GOME Financial**	*42(a)(iv)*	**81,927**	78,148
		1,750,682	1,665,145
Current portion		**(78,676)**	(47,463)
Non-current portion		**1,672,006**	1,617,682

* 國美信達商業保理有限公司 ("GOME Xinda Commercial Factoring Co., Ltd." or "GOME Xinda") is a subsidiary of 國美金融科技有限公司 ("Gome Finance Technology Co., Ltd.", 00628.HK), which is a company listed in the Stock Exchange and majority owned by Ms. Du Juan, who is the spouse of Mr. Wong.

** 國美控股集團有限公司 ("GOME Holding Group Company Limited" or "GOME Holding") and 國美金控投資有限公司 ("GOME Financial Holding Investment Co., Ltd." or "GOME Financial") are owned by Mr. Wong.

(i) On 29 November 2017, GOME Appliance entered into a loan agreement with Gome Telecom Zhejiang amounting to RMB49 million, bearing annual interest of 5% with period of one year. The loan has been transferred to paid-in capital in October 2018.

(ii) These balances were interest-free, unsecured and have no fixed terms of repayment.

(iii) The suppliers of the Group contracted with GOME Xinda for the factoring business and transferred the right of receivables to GOME Xinda. There was no transaction during the year.

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27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**6,264,223**	8,297,026
Time deposits	**14,658,620**	7,682,219
	20,922,843	15,979,245
Less: Pledged time deposits for bills payable	**(5,045,429)**	(4,467,299)
Pledged time deposits for interest-bearing bank loans	**(5,562,567)**	(2,104,320)
Interest reserve on bonds payable	**(171,508)**	(163,782)
	(10,779,504)	(6,735,401)
Cash and cash equivalents	**10,143,339**	9,243,844

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB20,001,679,000 (31 December 2017: RMB14,443,092,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank balances of the Group earn interest at floating rates based on daily bank deposit rates. Deposits of the Group are made for varying periods of between one day and three months, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

28. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**5,955,199**	8,040,453
Bills payable	**15,394,983**	14,798,440
	21,350,182	22,838,893

28. TRADE AND BILLS PAYABLES (Continued)

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the goods receipt date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**11,114,288**	12,208,312
3 to 6 months	**8,575,334**	8,939,643
Over 6 months	**1,660,560**	1,690,938
	21,350,182	22,838,893

The Group's bills payable are secured by the pledge of certain of the Group's assets as follows:

(i) time deposits (note 27);

(ii) buildings (note 13); and

(iii) investment properties (note 14).

The trade and bills payables are non-interest-bearing and are normally settled on terms of one to six months.

29. OTHER PAYABLES AND ACCRUAL

	Notes	2018 RMB'000	2017 RMB'000
Customers' deposits	*(a)*	**–**	520,484
Refund liabilities		**81,467**	–
Deferred revenue	*(b)*	**–**	170,422
Other payables and accruals	*(c)*	**3,183,532**	3,605,804
		3,264,999	4,296,710

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29. OTHER PAYABLES AND ACCRUAL (Continued)

Notes:

(a) Customers' deposits are reclassified to contract liabilities in note 30 under IFRS15.

(b) Deferred revenue represents the deferral of certain revenue amounts on sales transactions made to customers under the Group's customer loyalty points programme, and is released to the consolidated statement of profit or loss upon the customer's redemption of the loyalty points or upon the expiry date of the loyalty points. A reconciliation of the deferred revenue is as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	170,422	134,386
Additions during the year	559,369	841,151
Release upon redemption	(521,945)	(696,855)
Release upon expiry	–	(108,260)
Reclassification to contract liabilities	(207,846)	–
At 31 December	–	170,422

(c) Other payables are non-interest-bearing and have an average term of three months.

30. CONTRACT LIABILITIES

	Note	2018 RMB'000	2017 RMB'000
Customers' deposits		482,799	–
Provision for the loyalty points programme	*(i)*	207,846	–
Total contract liabilities		690,645	–

Note:

(i) A reconciliation of the Group's customer loyalty points programme is included in note 29(b).

31. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Notes	2018 RMB'000	2017 RMB'000
Current:			
Bank loan – secured	*(i)(ii)(iv)(v)(vi)(vii)*	**11,077,696**	3,025,262
Bank loan – unsecured	*(viii)(ix)*	**423,051**	–
Other borrowings	*(iii)*	**306,671**	–
		11,807,418	3,025,262
Non-current:			
Bank loans – secured		**321,592**	96,938
		12,129,010	3,122,200

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans and other borrowings		
Within one year or on demand	**11,807,418**	3,025,262
In the second year	**17,500**	–
In the third to fifth years, inclusive	**92,754**	–
Beyond five years	**211,338**	96,938
	12,129,010	3,122,200

The current bank loans as at 31 December 2018 comprised:

i) a bank loan of EUR258,937,000 (equivalent to RMB2,032,632,000) bearing interest at 1 year EURIBOR plus 1% per annum, which was secured by the pledged deposits of RMB2,118,060,000 (note 27);

ii) a bank loan of US$244,000,000 (equivalent to RMB1,673,923,000) bearing interest at 3-month LIBOR plus 1.2% per annum, which was secured by pledged deposits of RMB1,632,360,000 (note 27);

iii) a loan of HK$350,000,000 (equivalent to RMB306,671,000) bearing interest at the higher of 9% and 3-month HIBOR plus 7% per annum, which was secured by the shares of a subsidiary of the Group, and the Group's financial assets at fair value through profit or loss with a carrying amount of RMB812,103,000 (note 18);

iv) bank loans of EUR22,070,000 (equivalent to RMB172,310,000) bearing interest at 4.8% per annum which were guaranteed by a subsidiary of the Group;

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31. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

v) bank loans of RMB620,000,000 bearing interest at rates of 4.35% to 6.12% per annum, which were secured by the Group's investment properties (note 14) and buildings (note 13) with carrying amount of RMB579,195,000;

vi) bank loans of RMB653,000,000 bearing interest at rates of 4.30% to 5.87% per annum, which were guaranteed by certain subsidiaries of the Group;

vii) discount of bills receivables from various banks with carrying amount of RMB5,925,831,000 bearing interests at rates of 2.04% to 5.37% per annum, which were secured by the pledged deposits of RMB1,701,447,000 (note 27);

viii) discount of trade receivables from various banks with carrying amount of RMB419,957,000 bearing interests at rates of 5.82% to 5.95% per annum; and

ix) a bank loan of JPY50,000,000 (equivalent to RMB3,094,000) bearing a fixed interest at 0.53% per annum.

The non-current bank loans as at 31 December 2018 comprised bank loans of RMB321,592,000 at an interest rate based on a 5-year benchmark interest rate of the People's Bank of China were secured by the Group's prepaid land lease payments with a carrying amount of RMB1,136,997,000 (note 20). During the year, the interest of RMB10,311,000 was capitalised in construction in progress of the consolidated statement of financial position.

The carrying amounts of the bank loans approximate to their fair values.

32. BONDS PAYABLE

On 7 January 2016, 28 January 2016 and 10 May 2016, the Group issued bonds at par values of RMB3,000 million ("the first tranche in 2016"), RMB300 million ("the second tranche in 2016") and RMB1,700 million ("the third tranche in 2016") on the Shanghai Stock Exchange, which are repayable on 7 January 2022, 28 January 2022 and 10 May 2022, respectively. These bonds could be redeemed by the holder and the earliest repayment dates are 7 January 2019, 28 January 2019 and 10 May 2019, respectively. These bonds bore interests at 4%, 4% and 4.5%, respectively, per annum. The net proceeds after deducting the transaction cost of RMB105,232,000 were RMB4,894,768,000. The interests are paid on an annual basis.

As at 31 December 2018, the Group had completed the renewal of the first tranche in 2016 with the bond holders. The original coupon rate of the outstanding aggregate principal amount of RMB2,660,210,000 was adjusted to 7.6% since 8 January 2019 and the earliest repayment date will be 7 January 2021.

32. BONDS PAYABLE (Continued)

On 8 December 2016, the Group issued non-public bonds at par values of RMB4,000 million, which is repayable on 8 December 2022. The bonds could be redeemed by the holder and the earliest repayment date is 8 December 2018. These bonds bore interests at 5.67% per annum. The net proceeds after deducting the transaction cost of RMB60,000,000 was RMB3,940,000,000. The interests are paid on an annual basis. On 8 December 2018, these bonds were redeemed by the holder and the Group repaid the principal amount of RMB4,000 million.

On 10 March 2017 and 23 June 2017, the Group issued overseas bonds in an aggregate principal amount of US$400 million (equivalent to RMB2,777,143,000) and US$100 million with bonds premium of US$625,000 (equivalent to RMB686,735,000), respectively. These two sets of bonds form a single series which is listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The net proceeds after deducting the transaction cost of RMB40,833,000 were RMB3,423,045,000. These bonds bore interest from 10 March 2017 at 5.0% per annum payable semi-annually in arrears on 10 March and 10 September of each year, beginning 10 September 2017. Unless previously redeemed, purchased or cancelled, these bonds will be redeemed at their principal amount on 10 March 2020. The Group may redeem all, but not less than all, of these bonds at a price equal to their principal amount plus accrued and unpaid interest upon certain changes in the tax laws of certain jurisdiction.

Upon the occurrence of certain conditions as described in the announcements dated on 14 March 2017 and 27 June 2017, the Group must make an offer to repurchase all bonds outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of repurchase. On 18 December 2018, the Group repurchased the overseas bonds in the aggregate principal amount of US$4,000,000 (equivalent to RMB27,441,000).

On 21 December 2018, the Group issued bonds at par values of RMB600 million ("the first tranche in 2018") on the Shanghai Stock Exchange, which are repayable on 21 December 2024. These bonds could be redeemed by the holder and the earliest repayment date is 21 December 2020. These bonds bore interests at 7.8% per annum. The net proceeds after deducting the transaction cost of RMB3,600,000 were RMB596,400,000. The interests are paid on an annual basis.

After initial recognition, these bonds are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account transaction costs that are an integral part of the effective interest rate. The interest expense calculated based on the effective interest rate was RMB666,614,000, of which RMB588,228,000 was included in finance costs of the consolidated statement of profit or loss and RMB78,386,000 was capitalised in construction in progress of the consolidated statement of financial position.

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32. BONDS PAYABLE (Continued)

The movements of bonds payable during the year are as follows:

	RMB'000
Carrying amount as at 1 January 2018	12,115,183
Interest reclassified to current portion in previous year	243,327
Additions	596,400
Interest expenses during the year	666,614
Interest paid during the year	(598,611)
Principal paid during the year	(4,027,441)
Exchange differences	168,678
	9,164,150
Less: Interest to be paid within one year	(237,559)
Current portion included in current liabilities	(2,316,631)
Included under non-current liabilities as at 31 December 2018	6,609,960

33. FINANCE LEASE PAYABLE

The Group has a commitment under a finance lease agreement in respect of an aircraft, which has been recognised as property and equipment. This lease has a term of 5 years expiring in 2019. The Group has made an assessment on the classification of the leased aircraft pursuant to IAS 17 and classified this lease arrangement as a finance lease. It met one or more of the criteria as set out in IAS 17 (i.e. the leaser transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becoming exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; and at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset).

As at 31 December 2018, the total minimum future payments under the finance lease and its present value is as follows:

	31 December 2018	
	Minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000
Amounts payable:		
Within one year	13,074	12,863
Total minimum finance lease payments	13,074	12,863
Future finance charges	(211)	–
Total net finance lease payables	12,863	–

34. ISSUED CAPITAL

Shares	2018 HK$'000	2017 HK$'000
Issued and fully paid: 21,557,627,422 (2017: 21,557,627,422) ordinary shares	**538,941**	538,941

A summary of movements in the Company's share capital is as follows:

Shares	Note	Number of shares '000	HK$'000	Equivalent to RMB'000
At 1 January 2017		21,967,465	549,187	527,309
For cancellation	*(i)*	(409,838)	(10,246)	(8,987)
At 31 December 2017 and 2018		21,557,627	538,941	518,322

Note:

(i) The Company repurchased 409,838,000 of its shares on the Stock Exchange for a total consideration of RMB363,351,000 in 2017. The purchased shares were cancelled in 2017 and this cancellation resulted in the decrease of the issued capital of RMB8,987,000 and share premium of RMB354,364,000.

35. SHARE-BASED PAYMENTS

Share appreciation rights

Pursuant to the board of directors' resolution dated on 3 October 2016, a restricted share award scheme (the "New Scheme") was approved and the maximum amount of the fund to be contributed by the Company for purchasing the Company's shares (the "Shares") for the pool of the New Scheme is initially set at HK$2 billion. The maximum amount may be refreshed for such or other amount and at such time as determined by the board of directors after having taking into account the results and all relevant circumstances and affairs of the Group.

Under the New Scheme, certain SARs will be granted to selected individuals being a director (including executive and non-executive director), employee, officer, agent or consultant of the Group (the "Selected Participants"): (1) to recognize and motivate the contributions by Selected Participants and to give incentives there to in order to retain them for the continual operation and development of the Group (2) to attract suitable personnel for further development of the Group; and (3) to provide certain employees with a direct economic interest in attaining a long-term employer-employee relationship between the Group and certain employees.

The Shares will be acquired by an independent trustee (the "Trustee") at the cost of the Company and be held in trust for the Selected Participants until the end of each vesting period, then grant the premium above the exercise price to the Selected Participants after selling certain amount of the Shares.

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35. SHARE-BASED PAYMENTS (Continued)

Share appreciation rights (Continued)

During the year 2017, the first tranche of 228,087,000 SARs (the "First Tranche") and the second tranche of 15,800,000 SARs (the "Second Tranche") were granted on 16 October 2017 and 26 December 2017, respectively. The exercisable amount of the First Tranche and the Second Tranche varied from 0-150% of the granted amount of the SARs according to the performance results of the Selected Participants. The exercise price was set at HK$1.05.

The vesting period of the First Tranche was from date of grant to the announcement date of the unaudited interim results for the six-month period ended 30 June 2018 and the exercise period shall be within 180 days afterwards. The vesting periods of 3,800,000, 3,900,000, 4,000,000 and 4,100,000 SARs of the Second Tranche were from date of grant and shall end on the announcement dates of the audited annual results for the year ended 31 December 2018, 2019, 2020 and 2021 (the "Vesting Dates"), respectively. And the exercise periods shall be between the corresponding Vesting Dates and 2 October 2026. During the year, no SAR was exercised.

The SARs are stated at fair value, which has been determined by using the binomial tree model, as at 31 December 2018. During the year, the Group recognised a fair value gain of the SARs amounting to RMB8,453,000 through profit or loss.

The fair value of SARs granted should be determined, initially and at each reporting date until it is settled, by applying the binomial tree model, taking into account the terms and conditions upon which the SARs were granted, and the extent to which the Selected Participants have rendered service to date. The following table lists the inputs to the model used:

	31 December 2018 Second Tranche
Dividend yield (%)	–
Historical volatility (%)	50.63
Risk-free interest rate (%)	2.16
Expected life of options (year)	7.75
Weighted average share price (HK$ per share)	0.65

The expected life of the SARs is based on the rules of the New Scheme is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the SARs granted was incorporated into the measurement of fair value.

36. TREASURY SHARES

	Number of shares '000	HK$'000	Equivalent to RMB'000
At 1 January 2017	288,153	298,128	257,495
Repurchase	200,000	175,051	147,792
At 31 December 2017 and 1 January 2018	488,153	473,179	405,287
Repurchase	1,003,390	806,688	681,370
At 31 December 2018	1,491,543	1,279,867	1,086,657

During the year, the Group repurchased 1,003,390,000 shares from the open market with a cash consideration of HKD806,688,000 (equivalent to RMB681,370,000) for the New Scheme.

37. RESERVES

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity of the financial statements.

Statutory reserves

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profits after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserve funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of Mainland China domestic companies is required to transfer 10% of the profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of its registered capital of these companies. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

Share option reserve

The share option reserve was transferred to retained earnings when expired in 2017.

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38. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
Meixin Group	40%	40%
GOME-on-line*	40%	40%

	2018 RMB'000	2017 RMB'000
Loss for the year allocated to non-controlling interests:		
Meixin Group	(605,331)	(123,093)
GOME-on-line*	–	(555,532)
Accumulated balances of non-controlling interests at the reporting date:		
Meixin Group	2,784,472	(342,116)
GOME-on-line*	–	(1,837,025)

* On 31 March 2017, the Group acquired 60% of the equity interests of 美信網絡技術有限公司 (Meixin Network Technology Company Limited or "Meixin") and its subsidiaries (the "Meixin Group"). Meixin Group acquired 100% of the equity interests of 國美在線電子商務有限公司 ("GOME-on-line e-Commerce Co., Ltd." or "GOME-on-line") in 2018.

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2018	Meixin Group RMB'000
Revenue	4,840,394
Loss for the year	(1,513,333)
Current assets	2,517,616
Non-current assets	403,059
Current liabilities	(9,860,142)
Non-current liabilities	(21,713)
Net cash flows used in operating activities	(202,885)
Net cash flows used in investing activities	(1,604)
Net cash flows from financing activities	165,810
Net decrease in cash and cash equivalents	(38,679)

38. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

2017	GOME-on-line RMB'000	Meixin Group RMB'000
Revenue	4,179,713	31,917
Loss for the year	(1,388,829)	(307,733)
Current assets	2,218,962	809,152
Non-current assets	344,452	245,575
Current liabilities	(7,155,975)	(1,897,072)
Non-current liabilities	–	(12,946)
Net cash flows used in operating activities	(2,054,866)	(200,207)
Net cash flows (used in)/from investing activities	(22,018)	501
Net cash flows from financing activities	2,137,200	303,124
Net increase in cash and cash equivalents	60,316	103,418

39. DIVIDENDS

Pursuant to the board of directors' resolution dated 29 March 2019, the board did not recommend the payment of a final dividend for the year ended 31 December 2018 so as to preserve capital for funding needs of the Group.

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40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

There was no major non-cash transaction during the year.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank loans RMB'000	Finance lease payables RMB'000	Bonds payable and related interest payable RMB'000	Due to related companies RMB'000 *(Note 26)*
At 1 January 2018	**3,122,200**	**64,940**	**12,358,510**	**1,665,145**
Changes from financing cash flows	**8,930,693**	**(53,666)**	**(4,029,652)**	**3,166**
Foreign exchange movement	**76,117**	**–**	**168,678**	**-**
Interest expense	**–**	**1,589**	**666,614**	**82,371**
At 31 December 2018	**12,129,010**	**12,863**	**9,164,150**	**1,750,682**

	Interest-bearing bank loans RMB'000	Finance lease payables RMB'000	Bonds payable and related interest payable RMB'000	Due to related companies RMB'000 *(Note 26)*
At 1 January 2017	1,990,214	–	9,041,643	–
Changes from financing cash flows	1,014,533	(41,716)	2,915,434	1,154,287
Loan transfer	–	–	–	457,200
Foreign exchange movement	117,453	–	(196,018)	–
Interest expense	–	4,289	597,451	53,658
Increase arising from acquisition of a subsidiary	–	102,367	–	–
At 31 December 2017	3,122,200	64,940	12,358,510	1,665,145

41. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These have remaining lease terms ranging from 1 to 22 years and there are no restrictions placed upon the Group by entering into these lease agreements.

As at the end of the reporting period, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**3,468,055**	3,428,141
In the second to fifth years, inclusive	**9,742,703**	8,594,502
After five years	**3,944,265**	3,329,044
	17,155,023	15,351,687

As lessor

The Group has leased its investment properties (note 14) and entered into commercial property sub-leases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms ranging from 1 to 10 years. A majority of the Group's leases include a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2018 **RMB'000**	2017 RMB'000
Within one year	**212,416**	203,892
In the second to fifth years, inclusive	**457,891**	445,948
After five years	**94,995**	117,748
	765,302	767,588

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41. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (Continued)

(b) Capital commitments

In addition to the operating lease arrangements above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Property and equipment	737,856	156,565
Investments in subsidiaries	301,691	–
	1,039,547	156,565

42. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in the financial statements, the Group had the following significant transactions with the related parties.

(a) The Group had the following ongoing transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Rental expenses and other expenses to GOME Property*	(i)	148,736	164,066
Rental expenses and other expenses to Beijing Xinhengji*	(i)	45,304	37,029
Service fee to GOME Ruidong and Anxun Logistics	(ii)	607,804	601,270
Warehousing service income from related companies	(ii)	75,776	53,305
Warehousing service expenses to related companies	(ii)	51,443	23,643
Construction expenses to GOME Property	(iii)	14,151	14,151
Interest expenses to GOME Holding	(iv)	78,592	51,291
Interest expenses to GOME Financial	(iv)	3,779	2,367
Purchases from Beijing Lianmei**	(v)	19,861	24,707
Air service income from GOME Holding	(vi)	–	10,255
Purchases from Meiyunbao***	(vii)	22,317	–

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42. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following ongoing transactions with related parties during the year: (Continued)

* 國美地產控股有限公司 ("GOME Property Co., Ltd." or "GOME Property") and its respective subsidiaries are owned by Mr. Wong. 北京新恒基房地產集團有限公司 ("Beijing Xinhengji Property Co., Ltd." or "Beijing Xinhengji") and its respective subsidiaries are owned by a close member of the family of Mr. Wong.

In 2007, Beijing Xinhengji assigned part of the ownership of the building to GOME Property and also authorised GOME Property to manage and operate the assigned building area, including receiving and collecting the rentals for this building area. Completion of registration of the ownership assignment with the relevant PRC authorities is still pending.

** 北京聯美智科商業有限公司 ("Beijing Lianmei Zhike Business Co., Ltd." or "Beijing Lianmei") is a subsidiary of Gome Telecom (Zhejiang) Co., Ltd., which is an associate of the Group.

*** 美雲保（北京）科技服务有限公司 ("Meiyunbao Beijing Tech Service Co., Ltd" or "Meiyunbao") is one of the companies of the group (other than the Group) controlled by Mr. Wong (the "Parent Group").

Notes:

(i) On 20 December 2016, the Group renewed the lease agreement with GOME Property with respect to the continuous use of certain properties for the period from 1 January 2017 to 31 December 2022. In the first quarter of 2017, the Group prepaid all of the rental fees amounted to RMB913,361,000. During the year, the rental expenses incurred by the Group to GOME Property amounting to RMB148,736,000 (2017: RMB148,736,000).

The Group entered into several lease agreements with Beijing Xinhengji with respect to the use of certain properties. During the year, the rental expenses by the Group to Beijing Xinhengji incurred amounted to RMB45,304,000 (2017: RMB37,029,000).

On 20 December 2016, the Group renewed the lease agreements with 北京國美電器有限公司 ("Beijing GOME Electrical Appliance Co., Ltd." or "Beijing GOME") with respect to continuous use of certain properties. During 2017, the rental expenses incurred by the Group payable to Beijing GOME amounting to RMB15,330,000, and Beijing GOME was no longer a related company in 2018.

The above rental expenses were recognised in the consolidated statement of profit or loss.

The transactions constitute continuing connected transactions under the Listing Rules.

(ii) On 30 December 2015, the Group entered into (1) a logistics services agreement pursuant to which 北京國美鋭動電子商務有限公司 ("Beijing GOME Ruidong e-Commerce Co., Ltd." or "GOME Ruidong") and 安迅物流有限公司 ("Anxun Logistics Co., Ltd." or "Anxun Logistics"), which are beneficially owned by Mr. Wong and his associate, will provide the logistics services to the Group for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, (2) the warehousing service agreement pursuant to which the Group will provide the warehouse service to Anxun Logistics and other related companies for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively, and (3) the warehousing service agreement pursuant to which Anxun Logistics and its related companies will provide the warehousing service to the Group for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016, 2017 and 2018 not exceeding RMB900 million, RMB900 million and RMB900 million, respectively. During the year, the logistics service fee and warehouse service expenses incurred by the Group to Anxun Logistics amounted to RMB607,804,000 and RMB51,443,000, respectively (2017: RMB601,270,000 and RMB23,643,000), and the warehousing service income from Anxun Logistics amounted to RMB75,776,000 (2017: RMB53,305,000).

The transactions constitute continuing connected transactions under the Listing Rules.

(iii) The transaction constitutes continuing connected transaction under the Listing Rules but is exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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42. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following ongoing transactions with related parties during the year: (Continued)

Notes: (Continued)

(iv) On 1 January 2017, GOME on line, a subsidiary of the Group, entered into a loan agreement (the "Loan Agreement One") with GOME Holding. Pursuant to the Loan Agreement One, GOME Holding agrees to provide financial support to GOME-on-line with a cap amounting to RMB1.5 billion and bears annual interest at 5% for a three-year period. During the year ended 31 December 2017, GOME Ruidong, a subsidiary of GOME Holding, lent cash of RMB857,358,000 to GOME-on-line. Meanwhile, through several three-party agreements among GOME-on-line, GOME Ruidong and GOME Holding, GOME Ruidong transferred its right of receivables due from GOME-on-line to GOME Holding. The accumulative amount of transferred loans was RMB1,314,558,000, which was within the cap of the Loan Agreement One. During the year, GOME Holding lent cash of RMB54,324,000 to GOME-on-line and interest expense incurred by GOME-on-line to GOME Holding amounting to RMB67,256,000 (2017: RMB44,160,000) was recognised in the consolidated statement of profit or loss.

On 19 December 2016, Meixin entered into a loan agreement (the "Loan Agreement Two") with GOME Holding. Pursuant to the Loan Agreement Two, GOME Holding agrees to provide financial support to Meixin with a cap amounting to RMB600 million and bears annual interest of 5% for a three-year period. During the year ended 31 December 2017, GOME Holding lent cash of RMB227,343,000 to Meixin and related interest expense incurred by Meixin payable to GOME Holding in 2018 amounting to RMB11,336,000 (2017: RMB7,131,000) was recognised in the consolidated statement of profit or loss.

On 1 January 2017, Meixin entered into a loan agreement (the "Loan Agreement Three") with GOME Financial. Pursuant to the Loan Agreement Three, GOME Financial agrees to provide financial support to Meixin with a cap amounted to RMB200 million and bears annual interest at 5% for a three-year period. During the year ended 31 December 2018, interest expense incurred by Meixin to GOME Financial amounting to RMB3,779,000 (2017: RMB2,367,000) was recognised in the consolidated statement of profit or loss.

The transactions constitute continuing connected transactions under the Listing Rules but are exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(v) During the year ended 31 December 2018, the Group purchased commodities from Beijing Lianmei amounting to RMB19,861,000 (2017: RMB24,707,000).

The transaction does not constitute a continuing connected transaction under the Listing Rules.

(vi) During the year ended 31 December 2017, a subsidiary of Meixin possessed an aircraft and provided air service to GOME Holding amounted to RMB10,255,000. There is no such transaction during the year ended 31 December in 2018.

The transaction constitutes a continuing connected transaction under the Listing Rules but is exempted from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(vii) The sales and purchase transactions and the joint purchase transactions entered into between the Group and the Parent Group in respect of general merchandise were conducted based on the actual purchase costs from the Group's third party suppliers. On 25 January 2016, the Group entered into: (1) the master merchandise purchase agreement for the supply of general merchandise (including but not limited to electrical appliances and consumer electronic products) by the Parent Group to the Company's subsidiaries (including 國美電器有限公司 ("GOME Appliance Company Limited" or "GOME Appliance") and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion, respectively, and (2) the master merchandise supply agreement for the supply of general merchandise (including but not limited to electrical appliances and consumer electronic products) by GOME Appliance to the Parent Group and GOME-on-line for a period of three years from 1 January 2016 to 31 December 2018, subject to the annual caps of the transaction amounts (excluding value added tax) for the years ended 31 December 2016, 2017 and 2018 not exceeding RMB6 billion, RMB7 billion and RMB8 billion (including the transactions between GOME Appliance and GOME-on-line, which is regarded as a connected person under the Listing Rules), respectively. During the year of 2018, the amount paid by the Group to Meiyunbao amounting to RMB22,317,000 (2017: Nil).

The transactions constitute continuing connected transactions under the Listing Rules.

All the above related party transactions were determined by mutual agreements between the involved parties after taking into account prevailing market prices. The board of directors of the Company confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

42. RELATED PARTY TRANSACTIONS (Continued)

(b) Commitments with related parties

On 30 November 2017, Meixin Group renewed a lease agreement with Beijing Xinhengji which has a term expiring 24 September 2019. As at 31 December 2018, the Group had rental commitments with Beijing Xinhengji amounting to RMB17,263,000.

(c) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Fees	**2,027**	2,215
Other emoluments:		
Salaries, allowances and other expense	**9,202**	10,340
Pension scheme contributions	**326**	341
Share award expense	**(488)**	488
	11,067	13,384

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

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43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets designated at fair value through other comprehensive income RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets designated at fair value through other comprehensive income	–	550,285	–	550,285
Entrusted loan	500,000	–	–	500,000
Financial assets at fair value through profit or loss	–	–	2,314,292	2,314,292
Trade receivables	145,404	–	–	145,404
Financial assets included in prepayments, other receivables and other assets	1,656,583	–	–	1,656,583
Due from related companies	148,712	–	–	148,712
Pledged deposits	10,779,504	–	–	10,779,504
Cash and cash equivalents	10,143,339	–	–	10,143,339
	23,373,542	550,285	2,314,292	26,238,119

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Bonds payable	8,926,591
Interest-bearing bank loans and other borrowings	12,129,010
Trade and bills payables	21,350,182
Financial liabilities included in other payables and accruals	2,643,122
Due to related companies	1,780,413
	46,829,318

43. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2017

Financial assets

	Loans and receivables RMB'000	Equity investments at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	1,956,320	1,956,320
Entrusted loan	500,000	–	–	500,000
Equity investments at fair value through profit or loss	–	3,748,709	–	3,748,709
Trade receivables	186,370	–	–	186,370
Financial assets included in prepayments, other receivables and other assets	1,380,766	–	–	1,380,766
Due from related companies	349,953	–	–	349,953
Pledged deposits	6,735,401	–	–	6,735,401
Cash and cash equivalents	9,243,844	–	–	9,243,844
	18,396,334	3,748,709	1,956,320	24,101,363

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Bonds payable	12,115,183
Interest-bearing bank loans and other borrowings	3,122,200
Trade and bills payables	22,838,893
Financial liabilities included in other payables and accruals	2,468,807
Due to related companies	1,739,502
	42,284,585

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44. FAIR VALUE AND FAIR VALUE HIERARCHY

Set out below is a comparison of the carrying amounts and fair values of financial assets at fair value as at 31 December 2018:

	31 December 2018	
	Carrying amount RMB'000	Fair value RMB'000
Financial assets designated at fair value through other comprehensive income:		
Quoted investments	**550,285**	**550,285**
Financial assets at fair value though profit or loss:		
Unquoted investments	**851,668**	**851,668**
Quoted equity shares	**1,462,624**	**1,462,624**
Total	**2,864,577**	**2,864,577**

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, entrusted loan, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and amounts due from/to related companies, approximate to their carrying amounts largely due to the short term maturities of these instruments. The fair values of finance lease payable, long-term interest-bearing bank loans, long-term amounts due to related companies and bonds payable are estimated by discounting the expected future cash flows using equivalent market interest rates. As the nominal interest rates approximate to the market interest rates, the fair values of entrusted loan, finance lease payable, long-term interest-bearing bank loans, long-term amounts due to related companies and bonds payable approximate to their carrying amounts.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Fair values of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 31 December 2017.

44. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Valuation methods and assumptions

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments at fair value through profit or loss, which were previously classified as other investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the financial assets is the price that would be received to sell an asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The following methods and assumptions were used to estimate the fair values:

- Fair value of quoted equity shares is derived from quoted market prices in active markets (Level 1).
- Fair value of the unquoted investments in investment entities has been estimated using a Prior Transaction Method by taking reference to the latest transaction price (Level 3).
- Fair value of the other unquoted investments measured at fair value through profit or loss has been estimated using the market approach and enterprise value allocation model. The valuation requires management to make certain assumptions about the model inputs, including credit risk, volatility and lack of marketability discount. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted investments (Level 3).

Description of significant unobservable inputs to valuation

As at 31 December 2018:

	Valuation technique	Significant unobservable inputs	Weighted average	Sensitivity of the input to fair value
Investment entities	Prior transaction method	The latest transaction price	Not applicable	Not applicable
Other unquoted investments	Market approach and enterprise value allocation model	LOMD*	21.72%-27.39%	5% increase (decrease) in the LOMD would result in decrease (increase) in fair value from RMB3 million to RMB14 million.
		P/E	33.38-43.36	5% increase (decrease) in the P/E would result in increase (decrease) in fair value by RMB2 million to RMB8 million.

* The discount for lack of marketability ("LOMD") represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

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44. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's financial assets at fair value as at 31 December 2018:

		Fair value measurement using		
	Total RMB'000	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
As at 31 December 2018:				
Financial assets designated at fair value through other comprehensive income:				
Quoted equity shares	**550,285**	**550,285**	**–**	**–**
Financial assets at fair value though profit or loss:				
Unquoted investments	**851,668**	**–**	**–**	**851,668**
Quoted equity shares	**1,462,624**	**1,462,624**	**–**	**–**
Total	**2,864,577**	**2,012,909**	**–**	**851,668**
As at 31 December 2017:				
Other investments	746,085	746,085	–	–
Equity investments at fair value through profit or loss	3,748,709	3,748,709	–	–
	4,494,794	4,494,794	–	–

44. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair values hierarchy (Continued)

The movements in fair value measurements within Level 3 during the year are as follow:

	Total RMB'000
As at 1 January 2018	–
Adoption of IFRS 9	1,210,235
Accumulated adjustment in retained earnings	33,464
Remeasurement recognised in profit or loss	102,243
Transfer to Level 1	(772,016)
Purchases	288,643
Sales	(10,901)
As at 31 December2018	851,668

There was transfer out of Level 3 fair value measurements during the year because Meituan (3690. HK) was successfully listed on the Stock Exchange on 20 September 2018. The fair value of the investment was since then estimated by quoted price. The fair value increase in financial instruments categorised within Level 3 of RMB102,243,000 was recorded in the consolidated statement of profit or loss.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than financial assets designated at fair value through other comprehensive income, financial assets at fair value through profit or loss, other investments, comprise cash and cash equivalents, pledged deposits and interest-bearing bank loans. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables, finance lease payable, other receivables and payables and amounts due from/to related companies, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2018, the Group had bank borrowings of RMB5,607,818,000 with floating interest rates (2017: RMB3,119,306,000).

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Group's loss before tax (due to changes in finance costs).

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax RMB'000
2018		
If interest rate increases by	**5**	**1,065**
If interest rate decreases by	**(5)**	**(1,065)**

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax RMB'000
2017		
If interest rate increases by	5	332
If interest rate decreases by	(5)	(332)

Foreign currency risk

As at 31 December 2018, the Group had cash and bank deposits of RMB921,164,000 (2017: RMB1,530,258,000), financial assets at fair value through profit or loss of RMB812,103,000 (2017: RMB1,855,965,000), interest-bearing bank loans of RMB4,188,630,000 (2017: RMB3,025,262,000) and bonds payable of RMB3,366,830,000 (2017: RMB3,231,742,000) which were denominated in foreign currencies, mainly in US$, EUR and HK$.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US$, EUR and HK$ with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities). Other components of equity would not change.

	Change in foreign currency rate	Increase/ (decrease) in loss before tax RMB'000
2018		
If RMB weakens against US$	**5%**	**186,191**
If RMB strengthens against US$	**5%**	**(186,191)**
If RMB weakens against HK$	**5%**	**7,245**
If RMB strengthens against HK$	**5%**	**(7,245)**
If RMB weakens against EUR	**5%**	**110,253**
If RMB strengthens against EUR	**5%**	**(110,253)**

	Change in foreign currency rate	Increase/ (decrease) in loss before tax RMB'000
2017		
If RMB weakens against US$	5%	78,056
If RMB strengthens against US$	5%	(78,056)
If RMB weakens against HK$	5%	(35,701)
If RMB strengthens against HK$	5%	35,701
If RMB weakens against EUR	5%	101,304
If RMB strengthens against EUR	5%	(101,304)

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, pledged deposits, other receivables, entrusted loan and amounts due from related companies, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial instruments. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different geographical regions.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	145,404	–	–	–	145,404
Financial assets included in prepayments, other receivables and other assets	1,656,583	–	–	–	1,656,583
Pledged deposits	–	–	–	10,779,504	10,779,504
Cash and cash equivalents	–	–	–	10,143,339	10,143,339
	1,801,987	–	–	20,922,843	22,724,830

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds based on the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade and bills payables, finance lease payable, due to related companies, interest-bearing bank loans and bonds payable. Management has reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period, based on contractual undiscounted payments.

	Within 1 year RMB'000	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
2018				
Finance lease payable	**12,863**	**–**	**–**	**12,863**
Bonds payable	**2,499,104**	**7,770,849**	**–**	**10,269,953**
Interest-bearing bank loans	**11,950,197**	**160,541**	**253,313**	**12,364,051**
Trade and bills payables	**21,350,182**	**–**	**–**	**21,350,182**
Financial liabilities included in other payables and accruals	**2,643,122**	**–**	**–**	**2,643,122**
Due to related companies	**188,218**	**1,992,807**	**–**	**2,181,025**
	38,643,686	**9,924,197**	**253,313**	**48,821,196**

	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2017				
Finance lease payable	53,666	13,074	–	66,740
Bonds payable	4,460,300	10,253,333	–	14,713,633
Interest-bearing bank loans	3,037,253	76,795	37,278	3,151,326
Trade and bills payables	22,838,893	–	–	22,838,893
Financial liabilities included in other payables and accruals	2,468,807	–	–	2,468,807
Due to related companies	202,704	1,698,383	–	1,901,087
	33,061,623	12,041,585	37,278	45,140,486

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from financial assets at fair value through profit or loss (note 19) as at 31 December 2018. The Group's listed investments were valued at market price as at 31 December 2018 and 31 December 2017.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and its highest and lowest points during the year were as follows:

	31 December 2018	High/low 2018	31 December 2017	High/low 2017
Shanghai – A Share Index	**2,494**	**3,587/ 2,486**	3,307	3,450/ 3,017
Shenzhen – A Share Index	**7,240**	**11,633/ 7,089**	11,040	11,715/ 9,483
Hong Kong – Hang Seng Index	**25,846**	**33,484/ 24,541**	29,919	30,200/ 21,883
United States of America – Nasdaq Index	**6,635**	**8,133/ 6,190**	6,903	7,004/ 5,398
United States of America – NYSE COMPOSITE (DJ)	**11,374**	**13,368/ 10,770**	12,809	12,886/ 11,094

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk (Continued)

The following table demonstrates the sensitivity to 10% increase in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the other equity investments, the impact is deemed to be on the other investment revaluation reserve and no account is given for factors such as impairment which might impact on the consolidated statement of profit or loss.

	Carrying amount of equity investments RMB'000	Decrease in loss before tax RMB'000	Increase in equity* RMB'000
2018			
Investments listed in:			
Shanghai and Shenzhen-Financial assets designated at fair value through other comprehensive income	**550,285**	**–**	**55,029**
Shanghai and Shenzhen- Financial assets at fair value through profit or loss	**650,521**	**(65,052)**	**–**
Hong Kong – Financial assets at fair value through profit or loss	**812,103**	**(81,210)**	**–**
	2,012,909	**(146,262)**	**55,029**
2017			
Investments listed in:			
Shanghai and Shenzhen- Available-for-sale	746,085	–	74,608
Shanghai and Shenzhen- Equity investments at fair value through profit or loss	1,892,744	(189,274)	–
Hong Kong – Equity investments at fair value through profit or loss	368,563	(36,856)	–
United States – Equity investments at fair value through profit or loss	1,487,402	(148,740)	–
	4,494,794	(374,870)	74,608

* Excluding retained earnings

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objective of the Group's capital management is to ensure that the Group has healthy capital structure in order to support the Group's stability and growth.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank loans, amounts due to related companies, trade and bills payables and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2018 RMB'000	2017 RMB'000
Bonds payable	**8,926,591**	12,115,183
Interest-bearing bank loans and other borrowings	**12,129,010**	3,122,200
Due to related companies	**1,780,413**	1,739,502
Trade and bills payables	**21,350,182**	22,838,893
Contract liabilities, other payables and accruals	**3,955,644**	4,296,710
Less: Cash and cash equivalents	**(10,143,339)**	(9,243,844)
Pledged deposits	**(10,779,504)**	(6,735,401)
Net debt	**27,218,997**	28,133,243
Equity attributable to owners of the parent	**14,077,647**	19,913,125
Total capital	**14,077,647**	19,913,125
Capital and net debt	**41,296,644**	48,046,368
Gearing ratio	**66%**	59%

46. EVENTS AFTER THE REPORTING PERIOD

(i) On 7 January 2016, the Group issued bonds at par values of RMB3,000 million ("the first tranche in 2016") on the Shanghai Stock Exchange (note 32). On 24 December 2018, the first tranche in 2016 with aggregate principal amount of RMB2,660,210,000 were renewed, while the remaining amount of RMB339,790,000 were redeemed and then resold on 29 January 2019. The original coupon rate for the first tranche in 2016 was adjusted from 4% to 7.6% since 8 January 2019.

(ii) On 28 January 2016, the Group issued bonds at par values of RMB300 million ("the second tranche in 2016") on the Shanghai Stock Exchange (note 32). On 17 January 2019, the second tranche in 2016 with aggregate principal amount of RMB256,657,000 were renewed, while the remaining amount of RMB43,343,000 were redeemed and then resold on 1 March 2019. The original coupon rate for the second tranche in 2016 was adjusted from 4% to 7.6% since 29 January 2019.

(iii) On 28 February 2019, the Group issued bonds at par values of RMB500 million ("the first tranche in 2019") on the Shanghai Stock Exchange, which are repayable on 28 February 2025. These bonds could be redeemed by the holder and the earliest repayment date is 28 February 2021. These bonds bore coupon rate at 7.8% per annum and the interests are paid on an annual basis.

(iv) On 13 September 2018, the Group entered into an agreement with 鵬潤控股有限公司 ("Pengrun Holdings Co., Ltd.") pursuant to which the Group has conditionally agreed to acquire all the equity interests in 國美控股集團廣州有限公司 ("GOME Holdings Group Guangzhou Co., Ltd." or "the Target Company", a company registered in the PRC with limited liability). The Target Company and its wholly-owned subsidiary, owns a property development project in Guangzhou, PRC. On 25 January 2019, the transaction was completed and the Target Company became a wholly-owned subsidiary of the Group and its financial statements have been consolidated with the accounts of the Group since then. No goodwill recognised as the consideration was approximate to the fair value of the identifiable net assets.

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47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**12,135,816**	11,731,866
Total non-current assets	**12,135,816**	11,731,866
CURRENT ASSETS		
Amounts due from subsidiaries	**5,630,714**	3,873,016
Prepayments, other receivables and other assets	**5,920**	5,563
Equity investments at fair value through profit or loss	**–**	1,855,965
Other investments	**–**	780,810
Financial assets at fair value through profit or loss	**812,103**	–
Pledged deposit	**289,567**	268,102
Cash and cash equivalents	**536,265**	1,238,648
Total current assets	**7,274,569**	8,022,104
CURRENT LIABILITIES		
Interest-bearing bank loans	**3,706,555**	3,022,368
Other payables and accruals	**65,595**	63,227
Amounts due to subsidiaries	**632,719**	681,401
Total current liabilities	**4,404,869**	3,766,996
NET CURRENT ASSETS	**2,869,700**	4,255,108
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,005,516**	15,986,974
NON-CURRENT LIABILITIES		
Bonds payable	**3,387,369**	3,231,787
Total non-current liabilities	**3,387,369**	3,231,787
Net assets	**11,618,147**	12,755,187
EQUITY		
Issued capital	**518,322**	518,322
Reserves *(note 37)*	**11,099,825**	12,236,865
Total equity	**11,618,147**	12,755,187

Notes to Financial Statements

31 December 2018

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Treasury shares RMB'000	Share premium RMB'000	Contributed surplus RMB'000 Note (i)	Capital reserve RMB'000	Share option reserve RMB'000 Note (ii)	Warrant reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	(257,495)	14,183,499	42,849	(830,425)	163,720	117,731	(49,695)	131,701	13,501,885
Loss for the year and total comprehensive income for the year	–	–	–	–	–	–	–	(630,670)	(630,670)
Shares repurchased for cancellation	–	(354,364)	–	–	–	–	–	–	(354,364)
Shares repurchased for share award scheme	(147,792)	–	–	–	–	–	–	–	(147,792)
Share options expired	–	–	–	–	(163,720)	–	–	163,720	–
2016 dividend paid	–	–	–	–	–	–	–	(132,194)	(132,194)
At 31 December 2017	(405,287)	13,829,135	42,849	(830,425)	–	117,731	(49,695)	(467,443)	12,236,865
Effect of adoption of IFRS 9	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,319)**	**(11,319)**
At 1 January 2018 (restated)	**(405,287)**	**13,829,135**	**42,849**	**(830,425)**	**–**	**117,731**	**(49,695)**	**(478,762)**	**12,225,546**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(444,351)**	**(444,351)**
Shares repurchased for share award scheme	**(681,370)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(681,370)**
Expiry of warrants	**–**	**–**	**–**	**–**	**–**	**(117,731)**	**–**	**117,731**	**–**
At 31 December 2018	**(1,086,657)**	**13,829,135**	**42,849**	**(830,425)**	**–**	**–**	**(49,695)**	**(805,382)**	**11,099,825**

Notes:

(i) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the Group level, the contributed surplus is reclassified into various components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) it is, or after the payment would be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

(ii) The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount was transferred to retained earnings when the related options expire after the vesting date.

48. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 29 March 2019.

Corporate Information

DIRECTORS

Executive Director

ZOU Xiao Chun

Non-executive Directors

ZHANG Da Zhong *(Chairman)*
HUANG Xiu Hong
YU Sing Wong

Independent Non-executive Directors

LEE Kong Wai, Conway
LIU Hong Yu
WANG Gao

COMPANY SECRETARY

SZETO King Pui, Albert

AUTHORISED REPRESENTATIVES

ZOU Xiao Chun
SZETO King Pui, Albert

PRINCIPAL BANKERS

China Construction Bank
CITIC Bank
Industrial Bank
China Merchants Bank
Bank of Shanghai

AUDITORS

Ernst & Young
Certified Public Accountants

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