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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1280

ANNUAL REPORT 2018


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

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

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Ms. Xu Honghong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Jinyong
Mr. Chen Rui
Mr. Fung Tak Choi

COMPANY SECRETARY

Ms. Ngai Kit Fong, FCIS, FCS(PE)

AUDIT COMMITTEE

Mr. Zhao Jinyong *(Chairman)*
Mr. Chen Rui
Mr. Fung Tak Choi

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Chen Rui *(Chairman)*
Mr. Zhao Jinyong
Mr. Fung Tak Choi

INDEPENDENT INVESTIGATION COMMITTEE

Mr. Zhao Jinyong *(Chairman)*
Mr. Chen Rui
Mr. Fung Tak Choi

AUTHORISED REPRESENTATIVES

Mr. Yuan Li
Ms. Ngai Kit Fong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

6/F, Tower 2,
Guotai Building,
No. 440 Wenchang Xi Road,
Yangzhou City
Jiangsu Province
PRC

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

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

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PRINCIPAL BANKERS

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

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

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

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

STOCK CODE

1280

WEBSITE OF THE COMPANY

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS

1. REVENUE FOR 2018 WAS RMB920.8 MILLION, REPRESENTING A DECREASE OF 31.7% FROM APPROXIMATELY RMB1,347.4 MILLION FOR 2017, MAINLY ATTRIBUTABLE TO THAT THE COMPANY HAS STRATEGICALLY DISCARDED NON-PERFORMING NEW RETAIL BUSINESS OF CONTINUOUS LOSSES.

2. GROSS PROFIT MARGIN FOR 2018 WAS 2.5%, WHILE THAT OF 2017 WAS 2.4%.

3. OPERATING LOSS FOR 2018 WAS APPROXIMATELY RMB144.3 MILLION, WHILE THERE WAS OPERATING LOSS OF APPROXIMATELY RMB671.8 MILLION FOR 2017.

4. LOSS FOR 2018 WAS APPROXIMATELY RMB165.8 MILLION, WHILE THERE WAS LOSS OF APPROXIMATELY RMB731.2 MILLION FOR 2017.

5. REVENUE OF NEW RETAIL BUSINESS, INCLUDING THE RESULTS FROM SALES OF IMPORT MERCHANDISE AND GENERAL MERCHANDISE, AMOUNTED TO APPROXIMATELY RMB64.2 MILLION, REPRESENTING APPROXIMATELY 7.0% OF THE TOTAL REVENUE OF THE GROUP FOR 2018, WHILE THAT PROPORTION OF 2017 WAS APPROXIMATELY 15.1%.

CHAIRMAN'S STATEMENT

YUAN LI
Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Huiyin Smart Community Co., Ltd. (the "Company", together with its subsidiaries the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2018.

Year 2019 will usher in the 5G era, fostering the development of Internet of Everything and the artificial intelligence (AI) industry. With more commercial application of AI, new opportunities will emerge for transformation in the household appliance industry.

Looking back in 2018, the topics about "consumption upgrade" or "consumption downgrade" and "new retail" or "new consumption" were discussed most in the industry community. During the past year of adjustments, Huiyin also analysed the "similarity and difference" of the above concepts to prepare for future success.

"Consumption upgrade" or "consumption downgrade"? We interpret it as consumption classification, namely, how to precisely classify customers to offer targeted services, and serve China's rising and younger middle class under the new consumption era of technology led by 5G. At present, China's population aged 20-30 represent 17% of its total population while their spending makes up over 30% of the total spending. They are the most influential consumption group in the market, who demand for more personalized and convenient services. How to respond to and meet their needs so as to expand the Company's market share will be one of the three main missions for Huiyin in 2019 and the next three years.

"New retail" means that the dynamic relationship should be reconstructed among "consumers, goods and locations", the market flow be gained and the efficiency of commodity circulation be enhanced with focus on the supply side. "New consumption" emphasizes changes in consumers' views and behaviours with focus on the demand side. Against the backdrop of new economic environment, cutting-edge technologies and burgeoning demands that stress personalization and experience, Huiyin is also tasked with acquiring new customers with low cost and exploring further needs of existing customers so as to maximise the value of customers and the Company and deliver high returns for shareholders in 2019 and the next three years;

With China's promotion of new urbanization, the rising incomes of over 1 billion people in cities below the third tier led to impressive improvement in their consumption tendency and awareness, and gradual upward consumption dividends. This group at the forefront of the new era will inevitably become the main force for the burst of new consumption dividends. Huiyin has always set up its stores in the third-tier and fourth-tier cities consumer market, forming brand strength. We will leverage technologies and data on the Internet as well as Internet thinking to achieve refined management over purchasing, operation, marketing, customer service and supply chain with a focus on such group of people. As powered by technology, Huiyin will turn into a new technological company driven by big data and customer demand.

Since 2018, technologies such as mobile payment, big data and Cloud computing gradually shaped China's new commercial infrastructure and there is a gradual increase in the number of consumers going digitalized. Omni-channel shopping across the online and offline channels has become the mainstream consumption model of China. Currently, Huiyin has initially unified the commodities, membership, pricing, promotion, inventory, logistics online and offline. In addition, the Group's service capabilities are constantly improving, equipping the logistics capabilities of "three deliveries in one day", "precise distribution" and "delivery and installation integration".

Amidst the downward pressure of China's current macroeconomic slowdown, we will closely follow policies and focus on the application of technology, and embrace the upgrade and transformation to business infrastructure brought by 5G. Keeping abreast with emerging demand and consumption, we will reconstruct the dynamic relationship among "consumers, goods and locations" developed by Huiyin over the past 20 years. Besides, Huiyin will pay more attention to data and connectivity, promoting the application of Internet and digitalization in a new consumption era led by 5G.

CHAIRMAN'S STATEMENT

How do people in countries (e.g. US and Japan) spend their money where middle class serves as a foundation in its total population? Statistics show that consumer behaviours in such countries vary from that in China. If a Chinese family has RMB100, it will spend 35% of the total amount in services such as travel, insurance, education and seeing a doctor, while spending the remaining 65% in material objects that they can see and touch, such as refrigerator and clothes. In contrast, families in US and Japan spend 65% and 35% in services and material objects, respectively. What we see in US and Japan will be no surprise in China in the near future. Thus, China will see the rise in demand for service consumption with more Chinese consumers spending in a manner that is more similar with their counterparts in US and Japan. Huiyin will meet the demand by conducting proper market researches and preparations in advance, striving to become a new technology-driven Huiyin led by its new consumption strategy following its shift from the traditional household appliance company.

On behalf of the Board, I would like to express my wholehearted thanks to all shareholders and investors who have shown their care and support to the Company. The continuous efforts of all staff members of Huiyin are highly respected and appreciated by us, and we would also like to extend our sincere gratitude to different sectors of the community for their support to Huiyin. We will continue to balance the interests of shareholders, employees and customers, and pursue long-term and sustainable development for the Company.

I am very confident to lead all employees of Huiyin to overcome all challenges and further advance Huiyin's new consumption strategy with technological empowerment.

Yuan Li
Chairman

Hong Kong, 14 June 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the context of the sluggish economy and industry, the Group made adjustments and implanted reforms in 2018 which primarily covered areas as follows:

1. Improving internal control system. When addressing the issue in relation to the prepayment to suppliers in 2017, the Group identified certain deficiencies of different severity with the design and implementation of internal control. To close the loopholes, the Group engaged an internal control advisor to conduct a review on its design of internal control system, and after several rounds of analyses which started from the Board of Directors and ended at the entry level and ran again another way around, the Group prepared a set of detailed and practical manuals for internal control on the basis of actual situation, which were published on 1 March 2019. Further updates was announced on 26 March 2019.

2. Reconstructing human resources system. Any problem an enterprise encounters is a problem of human resources in the essence. The Group analysed and categorised personnel at different levels and from different departments by ethical practice and competency and other aspects. More experienced talents were invited to join the management team of domestic sales. The human resources management team became even stronger by establishing the knock-out system based on individual performance.

3. Transfer of business focus. Businesses consuming cash flows and with a longer cycle of loss were shut down so as to diminish continuous loss. The Group sold its cross-border retail sales segment on 10 December 2018 and refocused on its traditional retail business of household appliances.

For the year ended 31 December 2018, the Group's total revenue was approximately RMB920.8 million, representing a decrease of 31.7% from approximately RMB1,347.4 million for the year ended 31 December 2017.

For the year ended 31 December 2018, the Group recorded a loss of approximately RMB165.8 million, while a loss of approximately RMB731.2 million was recorded as for the year ended 31 December 2017. Gross profit margin was 2.5% and 2.4% for the year ended 31 December 2018 and 2017, respectively.

Traditional Retail Business of Household Appliances

Despite the doldrums of the macro economy in 2018 which cast a shadow on the industry of household appliances, the irreversible direction toward high-end and smart household appliances became even clearer as the residential consumption upgraded.

As young consumers keep dominating the market, with the appetite for smart products and the rising spending power of areas other than urban ones, the Group remained focusing on the high-growth markets of the third- and fourth-tier cities in Jiangsu Province and Anhui Province. During the reporting period, the Group actively optimised the product structure and flexibly adjusted its product mix to address varied market demands while monitoring its supply chain management and inventory management and maintaining long-term cooperation with household appliance manufacturers and distributors.

New retail business

Since 2015, the Group has successively launched Huiyin Lehu imported goods experience bases in Yangzhou, Nanjing, Nantong, Taizhou, Suzhou, and Hefei. However, due to their money-consuming and capital-driven operation model, all the experience bases have borne high cost and thus suffered severe losses. For the year ended 31 December 2018, the sales revenue generated from cross-border merchandise business was approximately RMB64.2 million, representing a decline of 68.5% as compared with RMB203.5 million for the year ended 31 December 2017.

To cut the losses and apply funds to strategic opportunities in later stages, certain subsidiaries of the new retail business were disposed on 10 December 2018.

Customer service: After-sales service and logistics management

(1) After-sales service

1. In terms of after-sales service personnel, unlike its competitors that outsource the installation, repair, delivery and other services to third parties, the Group regards after-sales services as the key of customer experience. The Group has a regular after-sales service team that is composed of 70 service, realising mastery of its own services. All the service personnels of the Group are certified, and they have all passed the examination of the provincial household electrical appliances association and obtained a certificate in the form of QR code;

2. The Group's after-sales services cover all categories and the full range of products, and everything can be handled by making a phone call. In contrast, the competitors' services are a combination of different types of service outlets;

3. The after-sales service management of the Group is unified in five aspects, namely unified image, unified service language, unified service standards, unified quality commitment, and unified charging standards; and

4. The Group's after-sales services cover a number of installation and maintenance services, such as the "commitment of ten services", the "eight free services for air-conditioner buyers", and the "70% discount for appliance cleaning", which provide sustained satisfactory technical support for the Company's business and also help expand the number of members and increase the business income.

(2) Logistics management

On the one hand, the Group cooperates with nearly ten heavy-cargo logistics operators such as SF Express, Deppon Express and CNEX to expand the geographical coverage of after-sales customer service by using less capital investment and bearing lower operational risks. On the other hand, the Company is committed to optimising the logistics management of existing logistics networks, warehouses and distribution centers to cope with the growing business operations.

The Group has established its own logistics team, and has nearly 20 heavy-duty trucks that have been equipped with GPS. Taking Jiangsu's Yangzhou port as the centre, the Group has built a 100-mu (1 mu=666.67 square metres) regional distribution center (RDC), including a warehouse area of 30,000 square metres, to cope with the distribution needs in the entire province of Jiangsu. We have also established a central distribution center (CDC) in Anhui to serve business needs in Jing county and Nanling county. In recent years, the Group has strengthened its information management and implemented real-time monitoring systems such as the security system, the warehouse goods monitoring system and the employee performance monitoring system to improve the delivery process and the customer's shopping experience to the greatest extent.

The Group has integrated after-sales and logistics into a centralised platform to improve the efficiency and effectiveness of customer service management.

Diversified marketing and promotion strategies

Along with its in-depth use of internet technology and in combination with its own development trends and resource dynamics, the Company has constantly adjusted the sales strategy and adopted a diversified marketing and promotion strategy for different business operations in different regions to adapt to the Company's business development and increase the market share. To align with the current situation of the Group, we have constructed a diversified closed-loop marketing model under which offline promotion is combined with online network platform promotion and We-media such as Weibo, Official Weibo and WeChat is combined with traditional media, and has implemented a diverse-package promotion strategy that leverages high-margin smart life products to attract traffic and improve the rate of repeated purchase.

In January 2019, ten government departments including National Development and Reform Commission issued the Implementation Plan of Further Optimising Supply, Promoting Steady Growth of Consumption and Forming a Strong Domestic Market, proposing regions with good conditions to subsidize household appliance replacements in order to promote the replacement of household appliances. With the arrival of the 2.0 era for household appliance subsidy, the Group has launched various marketing activities in response to the policy, such as an activity on offering a subsidy of up to RMB800 for a single piece of household appliance.

In a nutshell, under the 5G era of mobile Internet and Internet of Everything, the Group will more effectively apply a diversified marketing and promotion strategy to quicken inventory turnover, boost market share and sales turnover, and realize the leap-forward development of the Group by actively broadening its thinking and basing upon its own structure and market demand.

Management information and office system integration and upgrade

In 2018, to improve the efficiency of employees and enhance corporate governance, the Group strengthened the effective implementation and feedback of internal control, upgraded the OA approval system and the financial NC management system, and added an integrated fund management and control system and a comprehensive budget management system. Within the scope of authorisation, mutual information was easily pushed and obtained in multiple levels and multiple dimensions, i.e. among the authorisation, business, inventory, funds, budget, settlement, analysis, feedback and other information management systems and among the chairman, CEO, CFO, CTO, internal auditor, senior employees, middle-level employees, and grassroots employees, through the convenient and efficient control process of mobile terminals and the joint debugging of multiple system interfaces, which facilitates real-time management and control at all levels. As of the date of this report, the system upgrading has covered 95% of the total process.

The Group intends to forge a solid and competitive new Huiyin through the improvement of internal control system and the optimisation and reengineering of various processes.

Human resource management

In 2018, the Group introduced management talents with comprehensive advantages in business, capital and finance, and continued to sort out the functions, job requirements and KPIs of human resources. As at 31 December 2018, the number of employees of the Group was 675. To enhance employees' competency and improve their comprehensive skills, the Group organised more than 40 trainings with different themes. The training courses, covering induction training, product knowledge, sales skills, leadership skills, and corporate culture, fully catered to the needs of different levels of employees and more than 1,500 employees have participated in such trainings.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group's revenue was approximately RMB920.8 million, representing a decrease of 31.7% from approximately RMB1,347.4 million for the year ended 31 December 2017.

Turnover of the Group comprises revenues by operations as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Types of goods and services		
Sales of goods		
– Traditional business	**849,132**	1,130,560
– New retail business	**64,216**	203,527
	913,348	1,334,087
Rendering of services		
– Maintenance and installation service	**7,459**	13,349
Total revenue	**920,807**	1,347,436

Cost of sales

For the year ended 31 December 2018, the cost of sales was approximately RMB897.6 million, decreased by 31.8% from that of approximately RMB1,315.8 million for the year ended 31 December 2017,which was due to the decrease of sales volume.

Gross profit

For the year ended 31 December 2018, the gross profit was approximately RMB23.2 million, decreased by 26.8% from that of RMB31.7 million for the year ended 31 December 2017.

Other income

For the year ended 31 December 2018, other income recorded by the Group amounted to approximately RMB15.5 million, representing a decrease of 57.0% in comparison to approximately RMB36.1 million for the year ended 31 December 2017. This was mainly due to the decrease in sales volume, which led to the reduction of other income from the related supporting services.

Other gains

For the year ended 31 December 2018, the Group recorded other gains of approximately RMB7.9 million, in comparison to other losses of approximately RMB8.2 million for the year ended 31 December 2017.

Selling and marketing expenses

For the year ended 31 December 2018, the Group's total selling and marketing expenses amounted to approximately RMB130.3 million, representing an decrease by 34.4% from approximately RMB198.7 million for the year ended 31 December 2017, which was mainly due to reduction of relevant expenses after the shutdown of Nanjing Lehu.

Administrative expenses

For the year ended 31 December 2018, the Group's total administrative expenses amounted to approximately RMB66 million, sharply decreased by 58.2% from approximately RMB158 million for the year ended 31 December 2017, which was mainly due to reduction of relevant expenses after shutdown of Nanjing Lehu.

Operating loss

For the year ended 31 December 2018, the operating loss amounted to approximately RMB144.3 million, decreased by 78.5% from approximately RMB671.8 million for the year ended 31 December 2017.

Finance costs – net

For the year ended 31 December 2018, the net financial cost of the Group amounted to approximately RMB21.7 million, representing a decrease by 24.9% in comparison to approximately RMB28.9 million for the year ended 31 December 2017.

Loss before income tax

For the year ended 31 December 2018, the loss before income tax amounted to approximately RMB166.0 million, while in the same period in 2017, the loss before income tax was approximately RMB728.3 million for the year ended 31 December 2017.

Income tax expense

For the year ended 31 December 2018, the income tax credit of the Group amounted to approximately RMB0.2 million, while the income tax expenses was approximately RMB2.9 million for the year ended 31 December 2017.

Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company for the year ended 31 December 2018 was approximately RMB160.7 million, while there was loss attributable to equity holders of approximately RMB715.6 million for the year ended 31 December 2017.

Cash and cash equivalents

As at 31 December 2018, the Group's cash and cash equivalents were approximately RMB48.1 million, representing a decrease of 14.9% from approximately RMB56.5 million as at 31 December 2017.

Inventories

As at 31 December 2018, the Group's inventories amounted to approximately RMB157.5 million, representing a decrease of 38.9% from RMB258.0 million as at 31 December 2017.

Prepayments, deposits and other receivables

As at 31 December 2018, prepayments, deposits and other receivables of the Group amounted to approximately RMB101.3 million, representing a decrease of 38.8% from approximately RMB165.6 million as at 31 December 2017, which was mainly due to impairment in advance payment by Suohai, Zhipu and Meizanying as mentioned previously.

Trade and bills receivables

As at 31 December 2018, trade and bills receivables of the Group amounted to approximately RMB23.9 million, representing a decrease of 39.8% from approximately RMB39.8 million as at 31 December 2017, which was mainly due to the shutdown of Nanjing Lehu.

Trade and bills payables

As at 31 December 2018, trade and bills payables of the Group amounted to approximately RMB161.6 million, representing a decrease of 76.4% from approximately RMB683.7 million as at 31 December 2017, which was mainly due to the decrease of notes payable.

Gearing ratio and the basis of calculation

As at 31 December 2018, gearing ratio of the Group was 128.4%, increased from that of 119.4% as at 31 December 2017. The gearing ratio is equal to total liabilities divided by the sum of total equity and total liabilities.

Cash flows

For the year ended 31 December 2018, the net cash outflow from the Group's operating activities was approximately RMB310.4 million, while it was approximately RMB232.9 million for the year ended 31 December 2017. The cash flow was negative due to the severe loss of the Group.

For the year ended 31 December 2018 ,the net cash inflow from financing activities was approximately RMB320.5 million, compared with RMB166.1 million for the year ended 31 December 2017. This was mainly due to the increase in new share subscriptions and third-party advances.

Liquidity and financial resources

For the year ended 31 December 2018, the Group's working capital, capital expenditure and investment cash were funded from cash on hand, bank borrowings, advance from third parties and related parties and proceeds from placing of ordinary shares. As at 31 December 2018, the interest-bearing borrowings of the Group amounted to RMB45.6 million, representing a decrease from RMB138.4 million as at 31 December 2017.

As at 31 December 2018, the interest-bearing advance from third parties and related parties, and equity investor of an associate of the Group amounted to RMB369.5 million, representing an increase from RMB167 million as at 31 December 2017.

Pledging of assets

As at 31 December 2018, certain land use rights, buildings and investment properties with a total net book value of RMB217.5 million had been pledged.

Contingent liabilities

As at 31 December 2018, the Group has no contingent liabilities that have not been properly provided, except for certain unfounded legal claims that the Group does not expect to have incurred any material loss.

Capital commitments

As at 31 December 2018, the Group had capital commitment amounted to RMB174 million (2017: 174 million) to interest in an associate.

Foreign currencies and treasury policy

All the income and the majority of expenses of the Group were denominated in Renminbi. During the year, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risk. The Group does not have a foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting appropriate foreign currency hedging policy in the future.

Final dividend

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2018 (FY2017: Nil).

Employment and remuneration policy

The Group adopts remuneration policies similar to its peers in the industry. The remuneration payable to our staff is fixed with reference to the prevailing market rates in the region. Our management receives a fixed sum of basic salary and a discretionary performance bonus after annual/monthly/quarterly assessments.

The remuneration of our other employees comprises basic salary and an attractive sum of monthly performance bonuses. In compliance with the applicable statutory requirements in the PRC and existing requirements of the local government, our Group participates in different social welfare plans for our employees.

Human resources

As at 31 December 2018, the Group had 675 employees, decreased by 25.8% from 910 employees as at 31 December 2017.

Matters after the reporting period

As stated in the announcements of the Company dated 1 March 2019 and 26 March 2019, the Company has improved its internal control system.

Outlook

In 2018, although China's economy was in a downturn, the global economy was full of challenges, and the retail industry was facing significant operational pressure, the household appliance industry still has great development opportunities in the future.

First, since 2007, the national policy of household appliances going to the countryside has entered into a replacement cycle.

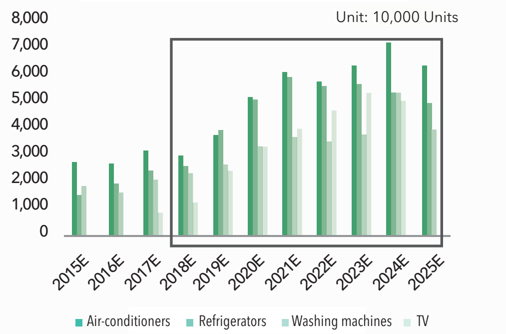
According to the statistics from the Ministry of Commerce of China, the sales of household appliances in the countryside during 2008-2012 were about 298 million units with a sales value of RMB720.4 billion. Based on the 10-year replacement cycle, white goods (such as color TV/washing machine/refrigerator, etc.) are entering a new replacement cycle.

As shown in the following chart:

Table: The impact on home appliances after the launch of the subsidy policies

Categories	Policy of Home Appliances Going to the Countryside	Trade in policy	Project of Energy-saving Products for air-conditioners	Beijing's subsidy for energy saving
Sales volume (10,000 units)	26,200	9,254	4,131	102
Sales amount (RMB'000 million)	6,229	3,420	NA	41
Subsidy amount (RMB'000 million)	721	300	100	3
Subsidy amount per unit	275	324	242	282

Renewal demand for large home appliances gradually increase



Second, there is a vast rural incremental market and huge market opportunities in the third-and fourth-tier cities and below.

In China, there still exists a large gap between urban and rural areas. At present, refrigerators/washing machines/color TV sets have been popularized and entered the stage of stock replacement. However, in the process of urbanization, air conditioners and kitchen appliances ownership are the lowest, the sales of which are still being in the growth stage, and have great potential for growth. Refrigerators and washing machines still have room for growth. The vast rural areas in China are covered with the third, fourth-tier cities or below. These cities are also the main areas of promoting urbanization rate as advocated by the country in the future.

China's first-and second-tier cities have a population of 363 million; while the population of cities below that is more than 1 billion, these cities are featured with a large population base, rapid income growth, high marginal propensity to consume and a low level of awareness and other characteristics. As the consumption capacity of consumers in the third-, fourth-tier and lower-tier cities gradually emerges, this group will inevitably become the main force in the outbreak of new consumer dividends in the household appliances industry. The group has been deeply engaged in the consumer market of the third-, fourth-tier and lower-tier cities, and has formed a good market brand effect and market reputation. After integration, the new team, with rich market experience and market sensitivity, will seize those market opportunities.

Third, in order to promote the steady growth of consumption, the country encourages household appliances consumption by issuing policies.

Ten departments including the National Development and Reform Commission have issued a series of policies that are favorable to the household appliances industry, providing support to the sale of green intelligent household appliances. Where conditions permit, appropriate subsidies can be given to consumers of new green and intelligent household appliances with long industrial chain, large driving coefficient and obvious synergistic effect of energy saving and emission reduction.

With the arrival of the 2.0 era for household appliances subsidy, the Group will concentrate on the internal corporate governance, and seize the breaking point of the replacement cycle of the national policy of household appliances going to countryside in the household appliances industry. Except for focusing its attention and resources on the principle business of household appliances, the Group will also prepare new consumption projects that have strong market explosiveness, strong profitability and match with the national industrial policy.

In the future, the Group will change its business model, transform its growth model, increase its innovation capability, and promote the digital transformation in view of the tremendous changes in the current consumption structure, consumption demand, consumption concept and consumption channels.

On the one hand, the Group intends to deepen and change the existing business model through big data, cloud computing, artificial intelligence and other cutting-edge technologies and to utilize supplier collaboration platform, customer management platform, marketing promotion platform and logistics management platform to reduce costs, increase benefits, enhance user experience, strengthen the current leading position in the third-, fourth-tier and lower-tier cities, and achieve the improvement of business capability and revenue in line with the efficiency-driven concept. On the other hand, we intend to leverage the industrial advantages of substantial shareholders to integrate and transform the consumer sector, and build a new Huiyin with the consumption industry as the core and science and technology as the driving force.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

Throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code with the exception of deviation set out below.

THE BOARD

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

Board Composition

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

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

Non-executive Director:
Ms. Xu Honghong

Independent Non-executive Directors:
Mr. Zhao Jinyong, Chairman of the Audit Committee, the Remuneration Committee and the Independent Investigation Committee, member of the Nomination Committee
Mr. Chen Rui, Chairman of the Nomination Committee, member of the Audit Committee, Remuneration Committee and Independent Investigation Committee
Mr. Fung Tak Choi, member of the Audit Committee, Nomination Committee and Independent Investigation Committee

The biographical information of the directors are set out in the section headed "Directors' and Senior Management's Profile" on pages 42 to 48 of this annual report.

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

There are no financial, business, family or other material/relevant relationships among members of the Board.

Except for the period from 30 June 2018 to 3 July 2018, during the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board, and of whom at least one independent non-executive Director must possess appropriate professional qualifications or accounting or related financial management expertise.

Meanwhile, on 30 January 2019, Mr. Tam Chun Chung resigned as an Independent Non-executive Director. From 30 January 2019 to 18 February 2019, the number of Independent Non-executive Directors are less than three. Upon the appointment of Mr. Fung Tak Choi as an Independent Non-executive Director on 19 February 2019, composition of the Board meets the relevant requirements of the Listing Rules.

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

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

Chairman and Chief Executive Officer

The position of Chairman is held by Mr. Yuan Li. Mr. Cao Kuanping, who suspended his duties as an Executive Director and Chief Executive Officer on 27 April 2018, resigned as Chief Executive Officer on 15 June 2018 and resigned as an Executive Director on 9 September 2018. Mr. Xin Kexia was appointed as an Executive Director and Chief Executive Officer on 15 June 2018.

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Appointment, Re-election and Removal of Directors

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

Each of the Executive Directors entered into a service contract with the Company for a term of three years commencing on the respective date of their appointment. Each of their appointment can be terminated by either party giving not less than three months' prior notice in writing to the other. Mr. Yuan Li, entered into a service contract with the Company commencing on 26 August 2017. Mr. Xu Xinying is re-designated from Non-executive Director to Executive Director and entered into a service contact with the Company commencing on 29 December 2017. Ms. Liu Simei appointed as an Executive Director on 29 December 2017, resigned on 27 April 2018 and re-appointed as an Executive Director on 3 May 2018. She has entered into a service contract with the Company on 3 May 2018. Mr. Xin Kexia appointed as an Executive Director on 15 June 2018 and entered into a service agreement on 15 June 2018. The appointment of Mr. Yuan Li, Mr. Xu Xinying, Ms. Liu Simei and Mr. Xin Kexia can be terminated by either party giving not less than three months' prior notice in writing to the other.

Each of the Non-executive Directors (including Independent Non-executive Directors) entered into an appointment letter with the Company for a term of three years commencing on 8 March 2019 for Ms. Xu Honghong, Non-executive Director; on 29 December 2017 for Mr. Zhao Jinyong, Independent Non-executive Director, on 4 July 2018 for Mr. Chen Rui, Independent Non-executive Director; and on 19 February 2019 for Mr. Fung Tak Choi, Independent Non-executive Director. The appointment of each of the Non-executive Directors (including Independent Non-executive Directors) can be terminated by either party giving not less than three months' prior notice in writing to the other.

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

In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board by the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

An annual general meeting was held on 22 March 2019 ("**AGM**") for, among others, adoption of the 2017 audited financial statements of the Company.

Ms. Xu Honghong was appointed as a Non-executive Director on 8 March 2019, a couple of weeks after the AGM notice had been issued on 21 February 2019. Therefore, she was not subject to re-election as Director at the AGM. Instead, she shall retire and offer herself for re-election at the forthcoming annual general meeting. According to article 16.18 of the articles of association of the Company, Mr. Yuan Li, Mr. Xu Xinying and Ms. Liu Simei shall retire and offer himself/herself for re-election at the forthcoming annual general meeting.

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

Continuous Professional Development of Directors

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

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

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

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

Directors	Types of Training
Mr. Yuan Li	B, C
Mr. Xin Kexia	B, C
Mr. Xu Xinying	B, C
Ms. Liu Simei	B, C
Ms. Xu Honghong	B, C
Mr. Zhao Jinyong	B, C
Mr. Chen Rui	B, C
Mr. Fung Tak Choi	B, C

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

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

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

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

In response to the concern raised by the former auditor, PricewaterhouseCoopers, regarding certain prepayments made to two suppliers of the Group during the year ended 31 December 2017 (the "**Prepayments**"), the Board resolved on 2 April 2018 to form an independent investigation committee (the "**Independent Investigation Committee**"), comprising Mr. Tam Chun Chung (resigned on 30 January 2019), Mr. Li Michael Hankin (resigned on 30 June 2018) and Mr. Zhao Jinyong, all are Independent Non-executive Directors. Mr. Tam Chun Chung (resigned on 30 January 2019) has been appointed as the chairman of the Independent Investigation Committee. Mr. Chen Rui was appointed as a member of the Independent Investigation Committee on 4 July 2018. Mr. Zhao Jinyong and Mr. Fung Tak Choi were appointed as the chairman and a member of the Independent Investigation Committee on 30 January 2019 and 19 February 2019 respectively. The purposes of forming the Independent Investigation Committee include, among other things, the following:

1. carrying out an independent investigation on all matters relating to the Prepayments as recommended by PricewaterhouseCoopers, the former auditor (retired upon expiration of its term of office at the conclusion of the AGM held on 22 March 2019); and

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

The Independent Investigation Committee may engage other independent professional advisers to assist in its investigation. For the updates on the investigation, please refer to the announcements dated 2 April 2018, 12 April 2018, 26 April 2018, 25 May 2018, 26 June 2018, 26 July 2018, 3 August 2018, 24 August 2018, 3 September 2018, 10 September 2018, 26 September 2018, 26 October 2018, 26 November 2018, 26 December 2018, 27 January 2019, 28 January 2019, 26 February 2019, 1 March 2019, 26 March 2019, 26 April 2019, 22 May 2019 and 26 May 2019.

Audit Committee

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

The Audit Committee comprises the Independent Non-executive Directors, namely Mr. Tam Chun Chung (resigned on 30 January 2019), Mr. Zhao Jinyong, Mr. Li Michael Hankin (resigned on 30 June 2018), Mr. Chen Rui (appointed on 4 July 2018) and Mr. Fung Tak Choi (appointed on 19 February 2019), including one Independent Non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise. During the year, Mr. Tam Chun Chung resigned as an Independent Non-executive Director and the chairman of the Audit Committee on 30 January 2019 and Mr. Zhao Jinyong has been appointed as the chairman of the Audit Committee on the same date.

Rule 3.21 of the Listing Rules requires the Audit Committee to comprise non-executive directors only, with a minimum of three members with Independent Non-executive Directors in majority and at least one member with appropriate professional qualifications or accounting or related financial management expertise.

Mr. Li Michael Hankin resigned on 30 June 2018 and Mr. Chen Rui was appointed as an Independent Non-executive Director on 4 July 2018. Mr. Tam Chun Chung resigned on 30 January 2019 and Mr. Fung Tak Choi was appointed as an Independent Non-executive Director on 19 February 2019. From 30 June 2018 to 3 July 2018 and from 30 January 2019 to 18 February 2019, the number of members of the Audit Committee was two.

During the year, the Audit Committee held one meeting, to discuss and pass the formation of the independent investigation committee.

Since the suspension of trading of the shares of the Company on the Stock Exchange on 26 March 2018 and the subsequent formation of an independent investigation committee, the Company did not prepare the audited financial statements for the year ended 31 December 2017 during the year of 2018 and therefore the Audit Committee failed to meet with the Company's auditors during the year, which had deviated from provision C.3.3 of the CG Code.

Remuneration Committee

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

The Remuneration Committee comprises one Executive Director, Mr. Yuan Li and two Independent non-executive Directors, Mr. Zhao Jinyong, Mr. Li Michael Hankin (resigned on 30 June 2018) and Mr. Chen Rui (appointed on 4 July 2018). Mr. Zhao Jinyong has been appointed as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee held four meetings, to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Executive Directors and senior management and the new executive/non-executive/independent non-executive Directors appointed during the year.

Nomination Committee

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

The Nomination Committee consists of three members, Mr. Cao Kuanping (resigned on 9 September 2018), Mr. Li Michael Hankin (resigned on 30 June 2018), Mr. Chen Rui (appointed on 4 July 2018), Mr. Zhao Jinyong and Mr. Fung Tak Choi (appointed on 19 February 2019). Mr. Chen Rui has been appointed as the chairman of the Nomination Committee.

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

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

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

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Director Nomination Procedure

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a nomination procedure which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

Corporate Governance Functions

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

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

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2018 is set out in the table below:

	Attendance/Number of Meetings				
	Board Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings	Extraordinary General Meeting
Executive Directors					
Mr. Yuan Li	16/16	N/A	4/4	N/A	1/1
Mr. Xin Kexia *(appointed on 15 June 2018)*	4/5	N/A	N/A	N/A	N/A
Mr. Xu Xinying	16/16	N/A	N/A	N/A	1/1
Ms. Liu Simei *(resigned on 27 April 2018 and re-appointed on 3 May 2018)*	11/14	N/A	N/A	N/A	1/1
Mr. Cao Kuanping *(resigned on 9 September 2018)*	6/14	N/A	N/A	N/A	1/1
Mr. Sun Lejiu *(appointed on 27 April 2018 and resigned in 3 May 2018)*	1/1	N/A	N/A	N/A	N/A
Non-executive Directors					
Mr. Shen Xingpeng *(resigned on 15 June 2018)*	11/11	N/A	N/A	N/A	0/1
Mr. Wang Cai *(resigned on 31 January 2019)*	15/16	N/A	N/A	N/A	0/1
Ms. Xu Honghong *(appointed on 8 March 2019)*	N/A	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Tam Chun Chung *(resigned on 30 January 2019)*	15/16	N/A	N/A	1/1	0/1
Mr. Li Michael Hankin *(resigned on 30 June 2018)*	10/11	3/3	3/3	1/1	0/1
Mr. Zhao Jinyong	15/16	4/4	4/4	1/1	1/1
Mr. Chen Rui *(appointed on 4 July 2018)*	3/4	0/0	0/0	0/0	N/A
Mr. Fung Tak Choi *(appointed on 19 February 2019)*	N/A	N/A	N/A	N/A	N/A

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

The Company did not hold annual general meeting in 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

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

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

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company and of the Group for the year ended 31 December 2018.

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

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

Risk Management and Internal Controls

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

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

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

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

Trading of the Company's shares has been suspended since 26 March 2018 pending release of its annual results for the year ended 31 December 2017. The delay was due to additional time required for the Company to address audit issues raised by its former auditor, PricewaterhouseCoopers (PwC), who retired as auditor of the Company upon expiration of its term of office at the conclusion of the AGM held on 22 March 2019, on prepayments made by the Company to two suppliers in the PRC (the "**Suppliers**") of RMB387 million in total during 2017. PwC considered that the Company's management has not yet provided sufficient explanation and evidence to support the Prepayments.

The Board has conducted a review of effectiveness of risk management and internal control systems and on 2 April 2018, the Company then formed the Independent Investigation Committee comprising three Independent Non-executive Directors to investigate the Prepayments and review the adequacy and effectiveness of the Company's internal control systems in relation to the Prepayments.

On 9 April 2018, the Independent Investigation Committee engaged KPMG Advisory (China) Limited as the independent internal control consultant to conduct an independent investigation on the Prepayments and review the related internal control systems.

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

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

Meanwhile, subsidiary of the Group, Yangzhou Huiyin Technology Group Co. Ltd.* (揚州匯銀科技集團有限公司) ("**Yangzhou Huiyin**") appointed Suzhou Fandao Certified Public Accountants Co., Ltd. (General Partnership)* (蘇州凡道會計師事務所(普通合夥)) on 12 July 2018 to conduct a review on the design of the updated internal control system of Yangzhou Huiyin in light of the investigation conducted by the Internal Control Consultant on the prepayment issues and the subsequent amendments and revisions to the internal control system by the Group based on such investigation result. Summary of such review report was announced on 1 March 2019. Further updates was announced on 26 March 2019.

Furthermore, the Company engaged an internal control consultant to conduct a follow-up review of the rectification works conducted by the Group (the "Rectification") in relation to the internal control weaknesses of the Group identified in the Internal Control Review Report, the Stage Two Investigation Report and the Stage Three Investigation Report. The summary of the Rectification Report was published on the announcement dated 21 May 2019 and further updates was announced on 26 May 2019.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on pages 49 to 56.

For the year ended 31 December 2018, the fees paid/payable with respect of audit and non-audit services provided by the Company's external auditor and predecessor auditor are approximately RMB4 million and RMB5 million respectively. Details of the service fees are set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	
Current year	4,000
Prior year	5,034
Non-audit Services	—
Total	9,034

COMPANY SECRETARY

Ms. Ngai Kit Fong, a director of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary. Her primary contact person at the Company is Ms. Liu Simei, the Chief Financial Officer of the Company. Ms. Ngai also confirmed that she has taken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

POLICY RELATING TO SHAREHOLDERS

The Company has in place a Shareholders' Communication Policy to ensure the shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends.

SHAREHOLDERS' RIGHTS

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

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

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

Address:	6/F, Tower 2, Guotai Building, No. 400 Wenchang Xi Road, Yangzhou City, Jiangsu Province, PRC
Fax:	86-514-87370101
Email:	lsm@ssdjz.cn

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

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

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

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

GOING CONCERN

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

An analysis of the financial risk on liquidity of the Group is included in note 4 to the consolidated financial statements.

REPORT OF THE DIRECTORS

The Board of Directors of the Company is pleased to present this report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 5 February 2008 with limited liability under the law of Cayman Islands. Upon completion of the reorganization of the Group in preparation for listing on the Stock Exchange, the Company became the holding company of the subsidiaries of the Group since 3 April 2008. Further details of the Group's reorganization are set forth in the Company's listing prospectus dated 12 March 2010 (the "Prospectus"). The Shares of the Company were listed on the Main Board of the Stock Exchange on 25 March 2010 by way of Global Offering. On 26 March 2018, trading of the Shares of the Company were suspended on the Stock Exchange.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review of the Group during the year and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the section headed "Management Discussion and Analysis" section of this annual report. The financial risk management objectives and its valuation processes of the Group are set out in note 4 to the consolidated financial statements. The review forms part of this report.

ENVIRONMENTAL POLICY

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 57 to 171 of this annual report.

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

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 61 and in note 21 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group and Company are set out in Note 21 and 44 (note a) to the consolidated financial statements.

Under the Companies Law, a Company may make distribution to its shareholders out of the share premium account under certain circumstances.

As at 31 December 2018, there is no reserves available for distribution to shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 8 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2018 are set out in note 29 to the consolidated financial statements.

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

Executive Directors

Mr. Yuan Li (appointed as Executive Director on 26 August 2017 and Chairman of the Board on 29 December 2017)
Mr. Xin Kexia (appointed as Executive Director and Chief Executive Officer on 15 June 2018)
Mr. Xu Xinying (appointed as Non-executive Director on 26 August 2017 and Executive Director on 29 December 2017)
Ms. Liu Simei (appointed on 29 December 2017, resigned on 27 April 2018 and reappointed on 3 May 2018)
Mr. Cao Kuanping (resigned as Chairman and Chief Executive Officer on 29 December 2017 and 15 June 2018 respectively, and resigned as Executive Director on 9 September 2018)
Mr. Sun Lejiu (appointed on 27 April 2018 and resigned on 3 May 2018)

Non-executive Directors

Mr. Wang Cai (resigned on 31 January 2019)
Mr. Shen Xingpeng (resigned on 15 June 2018)
Ms. Xu Honghong (appointed on 8 March 2019)

Independent Non-executive Directors

Mr. Tam Chun Chung (resigned on 30 January 2019)
Mr. Li Michael Hankin (resigned on 30 June 2018)
Mr. Zhao Jinyong (appointed on 29 December 2017)
Mr. Chen Rui (appointed on 4 July 2018)
Mr. Fung Tak Choi (appointed on 19 February 2019)

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors of the Company are set out in the section headed "Directors' and Senior Management's Profile" section on pages 42 to 48 of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018 and up to the date of this report, no Directors are considered to have interests, either directly or indirectly, in a business which competes or is likely to compete with the businesses of the Group, as defined in the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As set out in note 43 to the consolidated financial statements in this annual report, during the year ended 31 December 2018, the Group had rental expenses paid to Mr. Cao Kuanping, the ex-Chairman/CEO/executive director of the Company, amounting to RMB3,672,000.

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

All the Independent Non-executive Directors of the Company have reviewed the continuing connected transactions and confirmed that the continuing connected transactions have been entered into:

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

(ii) on normal commercial terms or better; and

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

Our external auditor, Crowe (HK) CPA Limited, was engaged to report on the continuing connected transactions and they have provided a letter to the Board of Directors confirming that:

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

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

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which are required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to therein, or under the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 14 in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Name of corporation	Capacity and Nature of interest	Aggregate number of ordinary shares or underlying shares	Approximate percentage of interest in the corporation
Yuan Li (Note)	The Company	Interest of controlled corporation	569,100,000 Shares(L)	22.42%
Tam Chun Chung	The Company	Beneficial owner	500,000 underlying Shares(L)	0.02%

(L) denotes long position

Note:

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

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

As at 31 December 2018, the interests or short positions of those persons (other than Directors or chief executives whose interests are disclosed above) in the ordinary shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Name of corporation	Capacity and Nature of interest	Aggregate number of ordinary shares	Approximate percentage of interest in the corporation
Mogen Ltd. (Note 1)	The Company	Interest of controlled corporation	569,100,000	22.42%
Noble Trade International Holdings Limited* (聖行國際集團有限公司) (Note 1)	The Company	Beneficial owner	569,100,000	22.42%
Chongqing Saint Information Technology Co., Ltd. (Note 1)	The Company	Interest of controlled corporation	569,100,000	22.42%
Baoshi (Tianjin) E-commerce Company Limited (Note 2)	The Company	Interest of controlled corporation	261,900,000	10.32%
Tianjin Bohai Commodity Exchange Corporation (Note 2)	The Company	Interest of controlled corporation	261,900,000	10.32%
BOCE (Hong Kong) Co., Limited (Note 2)	The Company	Beneficial owner	261,900,000	10.32%
China Ruike Investment & Development Co., Ltd. (Note 3)	The Company	Beneficial owner	239,103,625	9.42%
Cao Kuanping (Note 3)	The Company	Interest of controlled corporation	239,103,625 Shares	9.42%
		Beneficial owner	1,000,000 underlying Shares (L)	0.04%
		Spouse interest	1,000,000 underlying Shares (L)	0.04%
Mao Shanzhen (Note 3)	The Company	Spouse interest	240,103,625 Shares	9.46%
		Beneficial owner	1,000,000 underlying Shares(L)	0.04%

(L) denote long position

Notes:

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

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

(3) These underlying shares represent the 1,000,000 share options each held by Mr. Cao Kuanping and his spouse Ms. Mao Shanzhen granted by the Company under the Share Option Scheme.

The 239,103,625 shares are being held by China Ruike Investment & Development Co., Ltd. ("China Ruike") as beneficial owner. Mr. Cao Kuanping holds 100% interests of China Ruike.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the share capital of the Company during the year are set out in note 20 (amended) to the consolidated financial statements.

Share Option Scheme

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

The current applicable share options are as follows

(a) Purpose of the Share Option Scheme

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

(b) Participants of the Share Option Scheme

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

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

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

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

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

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

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

(e) Timing for exercising option

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

(f) Payment of acceptance of option

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

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

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

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

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

(iii) the nominal value of a Share.

(h) Duration of the Share Option Scheme

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

During the year ended 31 December 2018, no share options have been granted or exercised, but 161,700,000 share options cancelled or lapsed under the Share Option Scheme.

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

	Number of share Options				
Name	As at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	As 31 December 2018
Directors and their associate					
Cao Kuanping (Executive Director, resigned on 9 September 2018)	1,000,000	—	—	—	1,000,000
Tam Chun Chung (Independent Non-Executive Director, resigned on 31 January 2019)	500,000	—	—	—	500,000
Mao Shanzhen (the spouse of Cao Kuanping)	1,000,000	—	—	—	1,000,000
Others					
Employees	192,080,000	—	—	161,700,000	30,380,000
	194,580,000	—	—	161,700,000	32,880,000

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

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

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

The subscription price payable upon the exercise of the 100,000,000 Share Options granted on 14 May 2015 is fixed at HK$1.69. Details of the valuation of the Share Options are set out in note 20(c) to the audited consolidated financial statements of this annual report.

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

The subscription price payable upon the exercise of the 145,680,000 Share Options is fixed at HK$0.95. Details of the valuation of the Share Options are set out in note 20(c) to the audited consolidated financial statements of this annual report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank loans and other borrowings as at 31 December 2018 are set out in note 25 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 3.23% of the Group's total revenue and sales to the largest customer accounted for approximately 0.90% of the Group's total revenue for year 2018. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 27% of the Group's total purchases and purchases from the largest supplier accounted for approximately 9% of the Group's total purchases for year 2018.

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

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in note 34 to the consolidated financial statements.

PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee of the Group was established in 2010. Up to the date of this report, it comprises three members, all of whom are independent non-executive Directors, Mr. Zhao Jinyong, who possesses professional accounting qualifications, Mr. Chen Rui and Mr. Fung Tak Choi, appointed on 19 February 2019. Mr. Zhao Jinyong is the Chairman of the Audit Committee. From 30 June 2018 to 3 July 2018 and from 30 January to 18 February 2019, the number of Independent Non-executive Directors of the Board was two, which is less than the minimum number required by Rule 3.10(1) of the Listing Rules and the number of member of the Audit Committee of the Company was also two, which is less than the minimum number required by Rule 3.21 of the Listing Rules. The Company has appointed Mr. Fung Tak Choi as an Independent Non-Executive Director and a member of the Audit Committee on 19 February 2019. As of the date of this report, the composition of the Audit Committee were complied with related requirements of the Listing Rules. The Audit Committee has adopted the terms of reference in line with the CG Code issued by the Stock Exchange. The principal duties of the Audit Committee are to assist the Board in reviewing the internal audit function, financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2018 and the auditor's report thereon.

AUDITOR

PricewaterhouseCoopers ("PwC"), the former auditor, retired upon expiration of its term of office at the last annual general meeting of the Company held on 22 March 2019. Crowe (HK) CPA Limited ("Crowe") was appointed as the new auditor of the Company to fill the vacancy arising from the retirement of PwC at the conclusion of the said annual general meeting of the Company.

The financial statements for the year ended 31 December 2018 were audited by Crowe. A resolution for the re-appointment of Crowe as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Yuan Li
Chairman

Hong Kong, 14 June 2019

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

1.

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

Name	Position	Age	Term of office
Mr. Yuan Li	Chairman of the Board, Executive Director	37	26 August 2017-Now: Executive Director; 29 December 2017-Now: Chairman of the Board
Mr. Cao Kuanping	Chief Executive Officer, Executive Director	57	5 February 2008-29 December 2017: Chairman of the Board; 5 February 2008-9 September 2018: Executive Director; 5 February 2008-15 June 2018: Chief Executive Officer
Ms. Liu Simei	Executive Director	49	29 December 2017-27 April 2018, and 3 May 2018-Now
Mr. Xu Xinying	Executive Director	38	26 August 2017-29 December 2017: Non-executive Director; 29 December 2017-Now: Executive Director
Mr. Xin Kexia	Chief Executive Director, Executive Director	50	15 June 2018-Now
Mr. Wang Cai	Non-Executive Director	38	1 June 2017-31 January 2019
Mr. Shen Xingpeng	Non-Executive Director	37	29 December 2017 - 15 June 2018
Ms. Xu Honghong	Non- Executive Director	33	8 March 2019-Now
Mr. Tam Chun Chung	Independent Non-Executive Director	46	5 March 2010-31 January 2019
Mr. Zhao Jinyong	Independent Non-Executive Director	47	29 December 2017-Now
Mr. Li Michael Hankin	Independent Non-Executive Director	55	26 August 2017-30 June 2018
Mr. Chen Rui	Independent Non-Executive Director	44	4 July 2018-Now
Mr. Fung Tak Choi	Independent Non-Executive Director	60	19 February 2019-Now

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

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

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

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

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

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

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

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

9. Mr. Tam Chun Chung resigned as the Independent Non-executive Director, the Chairman of the Audit Committee and the Independent Investigation Committee on 30 January 2019.

10. Mr. Wang Cai resigned as Non-executive Director on 31 January 2019.

11. Mr. Fung Tak Choi was appointed as the Independent Non-executive Director, the member of the Audit Committee, the Nomination Committee and the Independent Investigation Committee on 19 February 2019.

12. Ms. Xu Honghong appointed as Non-executive Director on 8 March 2019.

(2) Directors' and Senior Management's Profile

(a) Executive Directors

Mr. Yuan Li (袁力先生), aged 37, was appointed to the Board on 26 August 2017 as an Executive Director of the Company, and was appointed as the Chairman of the Board of the Company and the member of the Remuneration Committee on 29 December 2017. Mr. Yuan is studying for an EMBA at the Cheung Kong Graduate School of Business, and has studied in institutions such as National School of Development at Peking University, Tsinghua PBC School of Finance and ICC-Yale. He has many years of experience in real estate, Internet, education, finance, creative economics such as new retail, and management. Mr. Yuan has been the chairman of the board of directors of Chongqing Saint Information Technology Co., Ltd. (重慶聖商信息科技有限公司), Noble Trade (Beijing) Holdings Group Co., Ltd.* (聖行(北京)控股集團有限公司) and Beijing Shengshang Education Technology Co., Ltd. (北京聖商教育科技股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 430277) since September 2014, November 2015 and September 2016 respectively. He has been the director of Guangdong Avi Low Carbon Technology Co., Ltd.* (廣東埃文低碳科技股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 871556) since August 2016. Mr. Yuan has first created the "Education, Real Estate, Finance" ecological platform model since 2014, achieving high market efficiency. Mr. Yuan is currently a director of Noble Trade International Holdings Limited* (聖行國際集團有限公司) which holds approximately 22.42% of the total issued share capital of the Company. Mr. Yuan currently serves as the executive director of the China Chamber of International Commerce, the special member of the Beijing Liaison Committee of the China National Democratic Construction Association, the vice president of the 1st Governing Council of the Beijing AiEr Foundation, and the cochairman of the Zhongguancun Private Equity & Venture Capital Association in Beijing.

Mr. Cao Kuanping (曹寬平先生), aged 57, founder of the Group, is responsible for the overall sales, marketing, development and strategic planning of the Company. Mr. Cao has extensive experience in the home appliances and consumer electronic products industry of more than 20 years. Mr. Cao has been a director of China Ruika Investment & Development Co., Ltd. since April 2008, an investment holding company wholly owned by him. In 2009, Mr. Cao obtained his executive MBA under the Tsinghua Executive MBA Program which is a part-time programme launched by Tsinghua University. Mr. Cao also completed the EMBA programme and obtained the degree of executive master of business administration from Cheung Kong Graduate School of Business in September 2013. Mr. Cao resigned as the Chief Executive Officer and Executive Director on 15 June 2018 and 9 September 2018, respectively.

Ms. Liu Simei (劉思鎂女士), aged 49, was appointed as the Executive Director of the Company on 29 December 2017, resigned on 27 April 2018 and re-appointed as an Executive Director on 3 May 2018. She had also served as the chief financial officer of the Company since 15 November 2018. Ms. Liu has more than 28 years of experience in financial and accounting matters. Prior to joining the Company in July 2017, Ms. Liu held senior position in the finance management department in Jiangsu Baosheng Group Company* (江蘇寶勝集團公司) (a company listed on the Shanghai Stock Exchange, stock code: 600973) from 1989 to 2001. From 2001 to June 2017, she worked as an auditor in Jiangsu Dahua Certified Public Accountants Co., Ltd.* (江蘇大華會計師事務所有限公司) and her last position was senior auditor. Ms. Liu obtained her first MBA degree from Tsinghua University in the People's Republic of China and her second MBA degree from Oxford University in the United Kingdom. She is currently a member of The Chinese Institute of Certified Public Accountants.

Mr. Xu Xinying (徐新穎先生), aged 38, was appointed as the Non-Executive Director of the Company on 26 August 2017, and was re-designated as an Executive Director of the Company on 29 December 2017. Mr. Xu has many years of experience in logistics, retail and management, and has published two bestselling economics books in 2016 and 2017. He has been the director of Chongqing Saint Information Technology Co., Ltd.* (重慶聖商信息科技有限公司), Noble Trade (Beijing) Holdings Group Co., Ltd.* (聖行(北京)控股集團有限公司) and Beijing Shengshang Education Technology Co., Ltd. (北京聖商教育科技股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 430277) since September 2014, November 2015 and September 2016, respectively. He graduated from Jilin University with the business administration undergraduate degree. He is qualified to engage in fund business in China.

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

(b) Non-Executive Director

Mr. Wang Cai (王偲先生), aged 38, has been appointed as the Non-Executive Director of the Company since 1 June 2017. Mr. Wang has more than 10 years of accounting experience. Mr. Wang was the finance manager of the Anthem Properties Group from 2006 to 2010. He joined Tianjin Bohai Commodity Exchange Corporation in 2010, and has been the general manager of the investment and asset management department since 2017. Mr. Wang is currently a member of the Chartered Professional Accountants of Canada and the Association of Chartered Certified Accountants. Mr. Wang obtained a bachelor degree in business administration from the Simon Fraser University in 2006.

Mr. Shen Xingpeng (沈興鵬先生), aged 37, has been appointed as non-executive director of the Company since 29 December 2017. Mr. Shen has worked in the fortune global 500 companies, including Nokia and Changyou.com Limited (a company listed on Nasdaq, stock code: CYOU), and has extensive experience in providing technical, management and consulting services to leading training, management and consulting institutions in the People's Republic of China including Shengjing Technology Co., Ltd.* (盛景網聯科技股份有限公司). Mr. Shen joined Noble Trade (Beijing) Holdings Group Co., Ltd.* (聖行(北京)控股集團有限公司) in 2015 and was responsible for providing business, listing and transformation and upgrading of the business operation system consultation services to customers. Mr. Shen is currently the vice president of Noble Trade (Beijing) Holdings Group Co., Ltd.* (聖行(北京)控股集團有限公司). Mr. Shen obtained his bachelor degree in science from the Xidian University in July 2004, and his master's degree in science from the same university in March 2007. Mr. Shen was an on-job Ph.D candidate from August 2008 and obtained his Ph.D degree from the Beijing University of Posts and Telecommunications in September 2014.

Ms. Xu Honghong (徐紅紅女士), aged 33, was appointed as the non-executive director of the Company since 8 March 2019. She has eight years of experience in the court from 2010 to 2018 and has accumulated extensive experience in handling business disputes and corporate governance. Since May 2018, Ms. Xu has joined Tianjin Bohai Commodity Exchange Corporation* ("Tianjin Bohai") (天津渤海商品交易所股份有限公司) as its Director of legal affairs and supervision department and investment and asset management department. Tianjin Bohai is a substantial shareholders of the Company, which is interested in approximately 10.32% of the issued share capital of the Company. Ms. Xu obtained her Bachelor of Laws degree from Shandong University of Finance and Economics* (山東財經大學) in 2007 and her master of laws in economics degree from Shandong University* (山東大學) in 2010. Ms. Xu obtained the Legal Professional Qualification Certificate issued by the Ministry of Justice of the People's Republic of China in February 2009.

(c) Independent Non-Executive Director

Mr. Tam Chun Chung (譚振忠先生), aged 47, was appointed as an Independent Non-Executive Director of the Company on 5 March 2010. He is also the chairman of the Audit Committee. He was appointed as chairman of Independent Investigation Committee on 2 April 2018. Mr. Tam has over a decade of experience in the accounting and audit field. Mr. Tam has been an independent non-executive director of Lap Kei Engineering (Holdings) Limited (the shares of which were listed on GEM, stock code: 8369, and subsequently were listed on the Main Board of the Stock Exchange, stock code: 1690), which is a company listed on the GEM of the Stock Exchange, since 10 September 2015. He has been a joint company secretary of China Railway Group Limited (中國中鐵股份有限公司) (stock code: 0390), which is a company listed on the Main Board of the Stock Exchange, since November 2007. Prior to joining China Railway Group Limited (中國中鐵股份有限公司), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (stock code: 0549, delisted in June 2017), which is a company listed on the Main Board of the Stock Exchange, from September 2005 to November 2007. Between 2000 and 2005, he worked in the finance department in China Motion Telecom International Limited (stock code: 0989), which is a company listed on the Main Board of the Stock Exchange, as an assistant manager, and was subsequently promoted to the position as a senior manager. From 1994 to 2000, Mr. Tam was employed by KPMG and was subsequently promoted to the position as an assistant manager. He has been a member of the Hong Kong Institute of Certified Public Accountants since December 1997 and a fellow of the Association of Chartered Certified Accountants since November 2002. Mr. Tam graduated from the Chinese University of Hong Kong in December 1994 with degree of bachelor of business administration. He further obtained an Executive Master of Business Administration from the Chinese University of Hong Kong in November 2015.

Mr. Zhao Jinyong (趙金勇先生), aged 47, was appointed as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Nomination Committee, and the chairman of the Remuneration Committee on 29 December 2017. Mr. Zhao was appointed as a member, and later chairman of Independent Investigation Committee on 2 April 2018 and 30 January 2019 respectively. He was appointed as the Chairman of the Audit Committee of the Company on 30 January 2019. Mr. Zhao have extensive experience in providing audit and consultancy services. Mr. Zhao obtained a bachelor degree in accountancy from Beijing Jiaotong University in 1995. After obtaining his bachelor degree in accountancy, Mr. Zhao taught at Beijing Jiaotong University until 1999. He was a senior auditor at Arthur Andersen and PricewaterhouseCoopers from 1999 to 2002, a consulting manager at BearingPoint Inc. from 2003 to 2007, and a consulting director at the Global Business Services Department of IBM from 2007 to 2011. From 2011 onwards, Mr. Zhao has been the head of the consulting services department of Kingdee Software, the dean of Post-EMBA Program at Peking University of the People's Republic of China and the executive secretary of the Business Promotion Association of Peking University of the People's Republic of China. He is currently the chief executive officer of Beijing Friendship Investment Management Co., Ltd.* (北京厚誼投資管理有限公司).

Mr. Li Michael Hankin (李恆健先生), aged 55, was appointed as the Independent Non-Executive Director of the Company, the member of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee on 26 August 2018. Mr. Li was appointed as a member of Independent Investigation Committee on 2 April 2018. Mr. Li has more than 20 years of experience in financial and accounting matters, fundraising, mergers and acquisitions, restructuring and international business development. During the period from March 1994 to June 2004, Mr. Li was the executive director(Corporate Finance) at BNP Paribas Capital (Asia Pacific) Limited (法國巴黎資本 (亞太) 有限公司). During the period from July 2004 to December 2005, Mr. Li was employed at GoldBond Capital (Asia) Limited (金榜融資 (亞洲) 有限公司) and was a managing director (investment banking) of Rothschild (Hong Kong) Limited (洛希爾 (香港) 有限公司) during the period from March 2007 to May 2011. Mr. Li obtained a master of business administration degree from Columbia University, New York in May 1992 and a bachelor degree in accountancy from University of California at Los Angeles in June 1985. Mr. Li resigned as the independent non-executive Director of the Company, the member of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee and the member of the Independent Investigation Committee on 30 June 2018.

Mr. Chen Rui (陳睿先生), aged 44, was appointed as the Independent Non-Executive Director of the Company, member of Audit Committee and Remuneration Committee and a chairman of Nomination Committee on 4 July 2018. He was appointed as a member of the Independent Investigation Committee on 4 July 2018. He is currently serving as the chairman of the board of Beijing Adfaith Consulting Co., Ltd.* (北京正略鈞策諮詢股份有限公司) and has approximately 16 years of experience in management and investment consulting. He is currently a visiting professor at the University of International Business and Economics (對外經濟貿易大學) and Central University of Finance and Economics (中央財經大學), respectively. Mr. Chen Rui graduated from the University of Leeds with a master degree in Business Administration.

Mr. Fung Tak Choi (馮德才先生), aged 60, was appointed as the Independent Non-executive Director, member of Audit Committee, Nomination Committee and Independent Investigation Committee on 19 February, 2019. Mr. Fung has significant experience in fraud risk management. From June to November 1999, Mr. Fung served as general manager of a multinational commercial security company in Hong Kong. From July 2000 to June 2003, Mr. Fung worked as the head of Security in a telecom company. Commencing form October 2004, Mr. Fung took the managing role of Hang Seng Bank for seven years. Since August 2013, Mr. Fung has been a practicing as solicitor in Kwok, Ng & Chan Solicitors & Notaries. Mr. Fung obtained a bachelor's degree in social science from the Chinese University of Hong Kong in 1983 and a master's degree in business administration from Oklahoma City University in Oklahoma City, the USA, in 1992. He obtained bachelor's degree in law from the Manchester Metropolitan University, the UK, in 2009 and Postgraduate Certificate in laws from the City University of Hong Kong in 2001 and a master's Degree of Law (Equity and Trust Law) from the University of London in 2012. He was qualified as an Information Systems Auditor in November 2001 and was admitted as a solicitor to the High Court of Hong Kong in August 2013.

(d) Senior Management

Mr. Sun Lejiu (孫樂久先生), aged 42, is the senior vice president of the Group. He graduated from Shenyang Jianzhu University (formerly known as Shenyang Institute of Architecture and Civil Engineering) in July 2000 with a bachelor's degree. He served as regional general manager in HGTECH Co., Ltd. (華工科技股份有限公司) from November 2001 to October 2005, as vice president in Liaoning Xin Yida Group Corporation (遼寧鑫億達集團公司) from November 2005 to October 2012, and as vice president of FAB Jingcai Corporation Group (FAB精彩企業集團) from November 2012 to May 2014. He has been the director of Beijing Shengshang Education Technology Co., Ltd. (北京聖商教育科技股份有限公司) since September 2017 to date.

Ms. Li Jing (李晶女士), aged 48, is the vice president of human resources of the Group. She worked in Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd.* (北京同仁堂健康藥業股份有限公司), Beijing Aspiring Integrated Marketing Co., Ltd.* (北京海天眾意整合營銷有限公司), Gome Holdings Group as the director of human resources and vice president of human resources. She is adept at the control of parent company and its subsidiaries, the establishment and the monitoring of the implementation of team succession system, remuneration and performance system, authorization system, process standard system, and control mechanism.

Mr. Gao Zhenyu (高振宇先生), aged 41, is the senior vice president of the Group. He has served as the general manager and assistant to vice president of the branch company of GOME Electrical Appliances (國美電器), as well as the general manager of Beijing Sanren Group Management Co., Ltd. (北京三仁集團管理有限公司). After joining the Sanpower Group in 2014 and serving as the vice executive president of HISAP, Gao Zhenyu is mainly responsible for the establishment of the supply chain for Brookstone products, driving HISAP's transition towards the novel Hongtu Brookstone. Gao Zhenyu is currently the vice president of Brookstone China in the Sanpower Group. For the past years, he has engaged in product supply chain integration and brand marketing, obtaining vast experience.

Mr. Wang Xiaofei (王笑扉先生), aged 42, is the CTO of the Group. He served as the consulting manager of IBM and the technical general manager of Sanpower Group Co., Ltd., with experience working in leading state-owned enterprises, foreign-invested enterprises and private enterprises. He also has 4 years of experience as an entrepreneur, having deep understanding in the operation model of different businesses. Mainly specialized in IT/DT technology, he is also experienced in implementing corporate solutions for communication, medical and health and retail business, with his own experience and approach for business model design, product planning, enterprise strategy consultation and corporate management, as well as an open mind and sharp logic.

Ms. Huang Qiuling (黃秋玲女士), aged 59, is the director of audit of the Group. She has engaged in financial auditing for many years, serving as the deputy financial officer of Huajing Electronics, director of the audit department of Wuxi Puxin Certified Public Accountants Co., Ltd.* (無錫普信會計師事務所) and the auditing director of Suzhou Dehe Group* (德合集團). She can perform off-office auditing on different operation aspects of a company, provide consultation on important commercial activities and investment decisions, and review and evaluate the implementation effect of different decisions.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUIYIN SMART COMMUNITY CO. LTD

(Incorporated in Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Huiyin Smart Community Co. Ltd ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 57 to 171, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, 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, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

Opening balances and corresponding figures

The predecessor auditor, who was engaged to audit the consolidated financial statements of the Group for the year ended 31 December 2017 (the "Predecessor Auditor"), had issued its report dated 31 January 2019 which expressed a disclaimer of opinion due to various limitations in evidence available as summarized in the basis for disclaimer of opinion paragraph (the "Basis for disclaimer of opinion 2017") therein.

The following matters in connection with prepayments to two television set suppliers and an air-conditioner supplier and the possible effect of undisclosed transactions were included in the limitations in evidence as set out in the Basis for disclaimer of opinion 2017.

– The business rationale and commercial substance of the transactions with two television set suppliers and an air-conditioner supplier and the occurrence, accuracy, completeness and valuation of the relevant prepayments as at 31 December 2017 and for the year then ended; and whether the impact of the above transactions have been properly accounted for and disclosed in the Group's consolidated financial statements in 2017 and corresponding period.

BASIS FOR QUALIFIED OPINION *(Continued)*

Opening balances and corresponding figures *(Continued)*

Prepayments to two television set suppliers and an air-conditioner supplier in the prior year ended 31 December 2017

a) As disclosed in Notes 2.1.2 and 17 to the consolidated financial statements, the carrying amounts of prepayments to the two television set suppliers, Yangzhou Suohai Electronics Co. Ltd. ("Suohai") and Jiangsu Zhipu Electronics Appliance Co. Ltd. ("Zhipu"), (net of accumulated impairment losses of approximately RMB225,887,000 and RMB140,736,000) were approximately RMBNil and RMB20,740,000 respectively as at 31 December 2017. During the year ended 31 December 2018, the Group ceased to have business transactions with these two suppliers and commenced legal proceeding against these two suppliers for recovery of prepayments to them. Upon finalisation of certain purchase orders/ transactions made in prior year and partial settlement in current year, the Group recognised reversal of impairment losses of approximately RMB11,252,000 in aggregate in respect of its prepayments to these two suppliers. As at 31 December 2018, the prepayments to these suppliers (net of accumulated impairment losses) amounted to RMB Nil and were then written off by the Group due to the potential difficulties in enforcing any judgement against Suohai and Zhipu to recover the prepayments from these two suppliers.

b) As disclosed in Notes 2.1.2 and 17 to the consolidated financial statements, the carrying amount of prepayment to an air-conditioner supplier, Nanjing Mei Zanying Electronics Sales Co., Ltd. ("Mei Zanying"), amounted to approximately RMB14,478,000 (net of accumulated impairment losses of approximately RMB48,737,000) as at 31 December 2017. The Group made no further prepayments to Mei Zanying since September 2018 and the employee holding a 10% interest in the air-conditioner supplier also resigned in 2018. During the year ended 31 December 2018, the Group recognised reversal of impairment losses of approximately RMB7,337,000 upon receipt of goods and confirmations from Mei Zanying and reconciliation of the transactions and balance with it. As at 31 December 2018, the carrying amount of the prepayment to Mei Zanying (net of accumulated impairment losses of approximately RMB41,400,000) amounted to RMBNil, and was then written off by the Group in view of unrealistic prospect of recovery.

As at the date of this report, there were no alternative audit procedures that we could perform to satisfy ourselves that the prepayments as set out in the paragraphs (a) and (b) above are free from material misstatement as at 1 January 2018 and we have been unable to determine whether any adjustments to these amounts and disclosures are necessary and any recognition of the related reversal of impairment losses on the prepayments to these suppliers have been properly accounted for and disclosed in the consolidated financial statements for the year ended 31 December 2018. Any adjustment found to be necessary in respect of the figures as described above might have a consequential effect on the Group's financial performance for the year ended 31 December 2018 reported in the consolidated income statement and consolidated statement of comprehensive income and the cash flows for the year ended 31 December 2018 reported in the consolidated statement of cash flows.

In addition, as any adjustments to the opening balances of assets and liabilities of the Group as at 1 January 2018 in relation to the matters as mentioned in the Basis for disclaimer of opinion 2017 that would be required may have consequential effects on the assets and liabilities of the Group as at 31 December 2017 and its financial performance and cash flows for the year ended 31 December 2017 presented as corresponding figures in the consolidated financial statements, we were unable to determine the possible effects of these matters on the comparability of the current year's figures and the corresponding figures presented in the consolidated financial statements.

BASIS FOR QUALIFIED OPINION *(Continued)*

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We 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 qualified 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.

In addition to the matters described in the Basis for Qualified Opinion section of our report, key audit matters identified in our audit are summarised as follows:

- Revenue Recognition
- Impairment assessment of property, plant and equipment and their related land use rights
- Valuation of inventories

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified revenue recognition from sales of merchandises as a key audit matter as revenue is quantitatively significant to the consolidated financial statements.	Our procedures in relation to revenue recognition from sales of merchandises included:
We focused on the occurrence and cut-off of revenue recognition because it required significant time and resource to audit due to the large amount and volume of transactions.	We understood the revenue recognition processes and tested the Group's key controls on revenue recognition.
The Group's revenue for the year ended 31 December 2018 amounted to approximately RMB920,807,000 and the accounting policy on revenue recognition is disclosed in Note 2.24 to the consolidated financial statements.	We understood and reviewed the revenue recognition policy of the Group by reviewing the sales contracts entered into with customers on sampling basis.
	We performed monthly analysis for the current and comparative periods to assess whether there is any unusual revenue trend over the current year, if any.
	In assessing the appropriateness of revenue recognition for the year ended 31 December 2018, we performed audit procedures as follows:

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition (Continued)	
	1) We conducted testing of revenue generated from sales of merchandises during the financial reporting period, on a sample basis, by tracing the financial records to, as applicable, the corresponding goods delivery notes, daily sales reports, the related sales documentation and customers' payment records to agree the quantity, amount and period. 2) We sent confirmations to customers to confirm the balance of trade receivables on a targeted basis, and consider the significance of the balance of trade receivables arising from each customer. 3) We performed research procedures for customers on a targeted basis, consider the nature and characteristics of the customers by checking each customer's registered information on the official website and company search records to verify the existence of these customers. 4) We checked sale returns subsequently on a sample basis by agreeing the quantity, amount and period of sale returns with appropriate approval procedures. In assessing the appropriateness of the cut-off of revenue recognition for the year ended 31 December 2018, we tested the sale transactions recorded before and after the end of the reporting period on a sample basis by tracing to the corresponding delivery notes to ensure the revenue was recognised in the correct accounting periods.

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment and their related land use rights	
As at 31 December 2018, the carrying amounts of the Group's property, plant and equipment and land use rights amounted to approximately RMB193,776,000 and RMB32,157,000 respectively. They entirely relate to the cash generating units ("CGUs") of the retail of household appliance, import merchandise and provision of maintenance and installation services for household appliances in the People's Republic of China. Given that the operating results of the CGUs were loss making for the current and prior years, management of the Company performed an impairment assessment of the related property, plant and equipment and land use rights to determine their recoverable amounts based on the fair value less costs of disposal of the relevant property, plant and equipment and land use rights. This area has been identified as a key audit matter due to the materiality of the carrying values of the property, plant and equipment and the land use rights, and the significant judgements and estimations involved in the assessment of their recoverable amounts. The accounting policies and disclosures in relation to items of land use rights and property, plant and equipment and the impairment assessment of property, plant and equipment and land use rights are included in notes 2.7 -2.8, 2.12 and 7-8 to the consolidated financial statements.	Property, plant and equipment are mainly comprised of i) the related building portions of the land use rights; and electronics and office equipment. Land use rights are the premiums paid for such rights and recorded as land use rights. For impairment assessments using income approach calculations to value the fair value of the properties as the recoverable amount, our audit procedures included the following: – Obtained and reviewed the valuation reports prepared by the external valuer engaged by the Group; – Assessed the external valuer's qualifications, experience and expertise and considered its objectivity and independence; – Assessed the valuation methodologies applied and the reasonableness of the key assumptions and estimates adopted in the valuations, and compared them to historical information, market information and conditions; – Assessed the adequacy of the disclosures of the Group's impairment assessment on property, plant and equipment in the consolidated financial statements; For impairment assessments in relation to electronics and office equipment using the fair value less cost of disposal of the relevant electronics and office equipment, our audit procedures included the following: – Enquired of management in relation to the base, reasonableness and source of information regarding the fair value of electronics and office equipment; – Compared them to our understanding of the latest market information and conditions; – Assessed the adequacy of the disclosures of the Group's impairment assessment on property, plant and equipment in the consolidated financial statements;

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We have identified valuation of inventories as a key audit matter because the Group has significant amount of inventories of approximately RMB157,530,000, representing 42.5% of the Group's current assets as at 31 December 2018. The Group's principal activities are in retail of household appliance and import merchandise. The Group's inventories are subject to the significant risk of obsolescence accompanying with the rapid development of household appliance and changing trends in the market. Significant management judgement was accordingly involved when determining the extent of write-down of inventories to net realisable value. Management is required to estimate the respective future selling prices and selling costs to determine if any write-down should be made or reversal of write-down should be made. The accounting policies, significant accounting judgements and estimates and disclosures for inventories are included in notes 2.13, 5 and 15 to the consolidated financial statements.	Our audit procedures were designed to assess the judgment and assumptions used by the management in calculating provision for write-down of inventories. We reviewed management's assessment of obsolete inventories, and critically assessed whether appropriate provision for write-down of inventories had been established for obsolete items. When considering management's assessment, we had also taken into account the most recent prices achieved on sales and adequacy of provision for write-down of inventories. We assessed the methodology and assumptions and compared to those used in prior years for consistency. We also assessed the reasonableness of management's assessment by considering the additional provision or release of previous recorded provisions for write-down of inventories and the net realisable value of inventories.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another firm of auditor who expressed a disclaimer of opinion dated 31 January 2019 due to various limitations in evidence available to them as described in the basis for disclaimer of opinion paragraph.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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 either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our 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, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

(Continued)

- 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 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 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 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.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 14 June 2019

Chan Wai Dune, Charles
Practising Certificate Number P00712

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000 (Restated)	As at 1 January 2017 RMB'000 (Restated)
ASSETS				
Non-current assets				
Land use rights	7	**32,157**	27,740	45,857
Property, plant and equipment	8	**193,776**	183,377	225,737
Investment properties	9	**5,066**	5,235	5,405
Intangible assets	10	**297**	851	3,744
Interest in joint venture	11	**—**	—	—
Interest in associates	12	**—**	—	934
Equity investment designated at fair value through other comprehensive income	13	**600**	—	—
Deferred tax assets	14	**—**	—	11,486
		231,896	217,203	293,163
Current assets				
Inventories	15	**157,530**	257,977	228,547
Trade and bills receivables	16	**23,989**	39,842	68,524
Prepayments, deposits and other receivables	17	**101,335**	165,607	499,756
Restricted bank deposits	18	**39,060**	278,350	646,712
Cash and cash equivalents	19	**48,075**	56,496	159,118
		369,989	798,272	1,602,657
Total assets		**601,885**	1,015,475	1,895,820
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	20	**16,766**	13,739	11,462
Reserves	21	**(210,452)**	(239,608)	270,296
		(193,686)	(225,869)	281,758
Non-controlling interests in equity		**22,787**	28,756	22,436
Total equity		**(170,899)**	(197,113)	304,194

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000 (Restated)	As at 1 January 2017 RMB'000 (Restated)
LIABILITIES				
Non-current liabilities				
Borrowings	25	**7,616**	7,062	7,358
Deferred tax liabilities	14	**—**	—	211
Deferred government grant	26	**—**	—	2,701
Other payables	23	**348,518**	—	—
		356,134	7,062	10,270
Current liabilities				
Trade and bills payables	22	**161,654**	683,732	850,852
Accruals and other payables	23	**97,456**	308,645	326,047
Contract liabilities	24	**39,780**	—	—
Borrowings	25	**38,000**	131,289	305,084
Current income tax liabilities		**22**	725	13,257
Derivative financial instruments	27	**26,178**	27,575	32,556
Other current liabilities	28	**53,560**	53,560	53,560
		416,650	1,205,526	1,581,356
Total liabilities		**772,784**	1,212,588	1,591,626
Total equity and liabilities		**601,885**	1,015,475	1,895,820

The notes on pages 64 to 171 are an integral part of these financial statements.

Yuan Li
Director

Liu Simei
Director

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 RMB'000	 2017 RMB'000 (Restated)
Revenue	6	**920,807**	1,347,436
Cost of sales	33	**(897,603)**	(1,315,776)
Gross profit		**23,204**	31,660
Other income	30	**15,523**	36,101
Other gains/(losses) – net	31	**7,942**	(8,153)
Reversal of impairment losses/(impairment losses) on financial assets, net	4.1(d)(ii)(III)	**5,300**	(374,713)
Selling and marketing expenses		**(130,328)**	(198,674)
Administrative expenses		**(65,962)**	(158,006)
Operating loss		**(144,321)**	(671,785)
Finance income	36	**2,270**	6,061
Finance costs	36	**(23,935)**	(34,935)
Finance costs – net	36	**(21,665)**	(28,874)
Share of loss of a joint venture	11	**—**	(27,500)
Share of loss of an associate	12	**—**	(122)
Loss before income tax	33	**(165,986)**	(728,281)
Income tax credit/(expense)	37	**174**	(2,910)
Loss for the year		**(165,812)**	(731,191)
Attributable to:			
– Equity holders of the Company		**(160,731)**	(715,623)
– Non-controlling interests		**(5,081)**	(15,568)
		(165,812)	(731,191)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	38	**(6.46)**	(38.49)
– Diluted	38	**(6.46)**	(38.49)

The notes on pages 64 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Loss for the year	**(165,812)**	(731,191)
Other comprehensive income or loss for the year	**—**	—
Total comprehensive loss for the year	**(165,812)**	(731,191)
Attributable to:		
– Equity holders of the Company	**(160,731)**	(715,623)
– Non-controlling interest	**(5,081)**	(15,568)
	(165,812)	(731,191)

The notes on 64 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Attributable to equity holders of the Company						Non-controlling interests	Total equity
		Share capital	Share premium	Statutory reserves	Other reserves	Accumulated losses	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 20)	(Note 21)	(Note 21)	(Note 21)				
Balance at 1 January 2017 (as originally stated)		11,462	1,380,409	28,007	82,998	(1,188,562)	314,314	22,436	336,750
Prior year adjustments	3	–	–	–	–	(32,556)	(32,556)	–	(32,556)
Balance at 1 January 2017 (as restated)		11,462	1,380,409	28,007	82,998	(1,221,118)	281,758	22,436	304,194
Changes in equity for 2017									
Loss for the year		–	–	–	–	(715,623)	(715,623)	(15,568)	(731,191)
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive loss		–	–	–	–	(715,623)	(715,623)	(15,568)	(731,191)
Capital contribution from non-controlling interests		–	–	–	–	–	–	2,000	2,000
Issue of ordinary shares	20(b)	2,277	233,322	–	–	–	235,599	–	235,599
Return of capital and dividend paid to non-controlling interests in liquidation of a subsidiary	29(c)	–	–	–	(207)	–	(207)	(2,088)	(2,295)
Transaction with non-controlling interest holders for additional interest in subsidiaries	29(c)	–	–	–	(27,396)	–	(27,396)	21,976	(5,420)
Total transactions with owners, recognised directly in equity		2,277	233,322	–	(27,603)	–	207,996	21,888	229,884
Balance at 31 December 2017 (as restated)		13,739	1,613,731	28,007	55,395	(1,936,741)	(225,869)	28,756	(197,113)
Balance at 1 January 2018 (as originally stated)		13,739	1,613,731	28,007	55,395	(1,909,166)	(198,294)	28,756	(169,538)
Prior year adjustments		–	–	–	–	(27,575)	(27,575)	–	(27,575)
Balance at 1 January 2018 (as restated)		13,739	1,613,731	28,007	55,395	(1,936,741)	(225,869)	28,756	(197,113)
Changes in equity for 2018									
Loss for the year		–	–	–	–	(160,731)	(160,731)	(5,081)	(165,812)
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive loss		–	–	–	–	(160,731)	(160,731)	(5,081)	(165,812)
Issue of ordinary shares	20(a)	3,027	189,887	–	–	–	192,914	–	192,914
Disposal of subsidiaries	32(a)	–	–	–	–	–	–	(888)	(888)
Total transactions with owners, recognised directly in equity		3,027	189,887	–	–	–	192,914	(888)	192,026
Balance at 31 December 2018		16,766	1,803,618	28,007	55,395	(2,097,472)	(193,686)	22,787	(170,899)

The notes on pages 64 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000 (Restated)
Cash flows used in operating activities:			
Cash used in operations	40	**(298,354)**	(195,856)
Interest paid		**(11,447)**	(32,922)
Income tax paid		**(675)**	(4,167)
Net cash used in operating activities		**(310,476)**	(232,945)
Cash flows from investing activities:			
Proceeds from disposal of subsidiary, net of cash disposed	32	**(2,805)**	—
Purchase of property, plant and equipment		**(18,204)**	(9,866)
Purchase of intangible assets		**(311)**	(5,406)
Purchase of land use rights		**(1,500)**	—
Proceeds from disposal of property, plant and equipment		**1,350**	158
Investment in short term investments		**—**	(18,000)
Proceeds from disposal of short term investments		**—**	18,000
Investment in a joint venture		**—**	(27,500)
Payment for purchase of equity investment designated at fair value through other comprehensive income		**(600)**	—
Interest received		**3,028**	7,421
Net cash used in investing activities		**(19,042)**	(35,193)
Cash flows from financing activities:			
Advance from a former director		**—**	25,000
Repayment of advance from a former director		**(25,000)**	—
Advance from equity investor of an associate		**—**	100,000
Repayments of advance from equity investor of an associate		**(24,485)**	(72,200)
Proceeds from bank borrowings		**38,000**	182,600
Advance from third parties and related parties		**402,410**	115,600
Repayments of advance from third parties		**(150,400)**	—
Repayment of bank borrowings		**(131,289)**	(353,591)
Repayments of advance from third parties and related parties		**—**	(82,361)
Release of restricted bank deposits pledged for bank borrowings		**20,390**	96,323
Proceeds from issuance of ordinary shares	20	**192,914**	235,599
Deposits received from subscription of ordinary shares of the Company		**—**	2,930
Repayment of deposits received for subscription of ordinary shares of the Company		**—**	(80,258)
Consideration paid to a former non-controlling interest holder of a subsidiary		**(2,000)**	—

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December **2018** **RMB'000**	 2017 RMB'000 (Restated)
Capital contribution from a non-controlling interest holder		—	2,000
Return of capital and dividend paid to a non-controlling interest holder in liquidation of a subsidiary		—	(2,295)
Cash paid to non-controlling interest holders for acquisition of additional interest in subsidiaries		—	(3,200)
Net cash generated from financing activities		**320,540**	166,147
Decrease in cash and cash equivalents		**(8,978)**	(101,991)
Cash and cash equivalents at beginning of the year	19	**56,496**	159,118
Exchange differences on cash and cash equivalents		**557**	(631)
Cash and cash equivalents at end of the year	19	**48,075**	56,496

The notes on 64 to 171 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2018

1. GENERAL INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance ("HKCO").

The consolidated financial statements have been prepared under the historical cost convention, as modified by certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. 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, regardless of whether that price is directly observable or estimated using another valuation technique.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint venture.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods, Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5 below.

2.1.1 Going Concern Basis

The Group incurred a net loss attributable to the equity holders of the Company of approximately RMB160,731,000 and had a net operating cash outflow of approximately RMB310,476,000 for the year ended 31 December 2018. As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB46,661,000 and the Group's total liabilities exceeded its total assets by approximately RMB170,899,000.

The Directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from the date of the approval of these consolidated financial statements. In addition, the Directors of the Company have also given careful consideration to the future liquidity and performance of the Group and its available sources of finance to continue as a going concern. The following plans and measures have been undertaken to mitigate the liquidity pressure and to improve the financial position of the Group.

(i) Since January 2019, the Group obtained further advances of approximately RMB77,000,000 from certain independent third parties and related parties for maturity periods ranging from 18 months to 24 months from the drawdown date of each relevant borrowing. The advances carry interest at a fixed rate ranging from 5% to 5.5% per annum (Note 46);

(ii) On 25 May 2019, the Group successfully negotiated with one of its other creditors, Wu Jipeng (an independent third party), to extend the maturity periods of his advances and interest payables of approximately RMB181,970,000 in aggregate (including non-current and current advances) as at 31 December 2018 to 30 June 2021.

(iii) The implementation of cost saving measures to control the daily operation costs;

(iv) On 5 June 2019, a company controlled by Yuan Yang (family member of the Chairman, Yuan Li) made an advance of approximately RMB42,207,000 (equivalent to USD6,170,000) to the Company at a fixed interest rate of 5% per annum. The advance will be due for repayment on 6 June 2020;

(v) On 14 June 2019, the Company secured a financial support arrangement from 重慶聖商信息科技有限公司 ("重慶聖商"), the parent company of a substantial shareholder (Noble Trade International Holdings Limited) of the Company, under which 重慶聖商 has given an irrevocable undertaking that it would provide working capital loans for a maximum amount of RMB350 million to the Group as and when necessary to meet its working capital and other needs for a period of 24 months from the date of approval of these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Going Concern Basis *(Continued)*

The Directors of the Company are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of approval of these consolidated financial statements. Accordingly, the directors consider that it is appropriate to prepare these consolidated financial statements on a going concern basis.

2.1.2 Prior years investigation

In 2018, the then board of directors of the Company (the "Former Board") was informed by its predecessor auditor of certain findings during the course of the audit of the consolidated financial statements for the year ended 31 December 2017. As a result, an independent committee was established so as to engage an independent professional adviser to perform an investigation (the "Investigation") on (i) large prepayments to certain suppliers, (ii) the commercial basis of these prepayments and recoverability of these prepayments given the fact that the two suppliers are in the liquidation proceedings or otherwise in financial difficulty. The initial investigation report was issued on 28 August 2018. In November 2018, the independent committee was also informed by the predecessor auditor of certain other findings in connection with the audit of the consolidated financial statements for the year ended 31 December 2017. These material findings include prepayments to an air-conditioner supplier, unrecorded service fee under a financial consulting service agreement and service fees for a consulting service agreement with an individual. All these findings were further investigated by the independent professional adviser with final investigation reports dated 25 December 2018.

The investigation had a number of limitations in respect of certain restrictions to have access to certain former senior management personnel and other former employees of the Group. During the course of the preparation of the consolidated financial statements for year ended 31 December 2018, the directors of the Company had taken into account the findings of the investigation, considered the relevant information and supporting evidence available and had used their best effort to estimate the relevant financial impact of the matters identified in the investigation. The Board considered it would be appropriate to make certain accounting treatments in the Group's consolidated financial statements for the year ended 31 December 2018 in respect of the following matters which are relevant to these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Prior years investigation *(Continued)*

(i) Prepayments to two television set suppliers and an air-conditioner supplier

(a) As set out in Note 17 to the consolidated financial statements, the Group made prepayments of RMB677,298,000 and RMB336,120,000 to two television set suppliers, Yangzhou Suohai Electronics Co., Ltd ("Suohai") and Jiangsu Zhipu Electronics Appliance Co. Ltd ("Zhipu") respectively during the year ended 31 December 2017; and received refunds of prepayments amounting to RMB442,525,000 and RMB191,959,000 from Suohai and Zhipu during the year 2017 respectively. As at 31 December 2017, the Group's prepayments to Suohai and Zhipu amounted to RMB225,887,000 and RMB161,476,000 respectively. During the year ended 31 December 2017, the Group recognised impairment provision of RMB225,887,000 and RMB140,736,000 in view of subsequent settlement by way of transfer of properties from the supplier, legal proceedings against the suppliers and their financial difficulties. As at 31 December 2017, the carrying amounts to Suohai and Zhipu (net of accumulated impairment losses) amounted to RMB Nil and RMB 20,740,000 respectively.

During the year 2018, no further prepayments to these two television set suppliers was made by the Group and the Group ceased to have business transactions with these two suppliers thereafter. After taking into account of the findings of the investigation report, the complexity and uncertainty of the outcome of the legal proceeding against these suppliers, the potential difficulties in enforcing any judgment against these suppliers, the partial settlement of approximately RMB20,740,000 from one of the suppliers by way of transfer of properties from the supplier, and certain adjustments arising from finalization of purchase orders/transactions made in prior year, the Directors considered that it is unlikely to recover the remaining outstanding prepayments to these two television set suppliers. Thus, the prepayments to these two television set suppliers, after impairment losses, amounted to RMB Nil as at 31 December 2018 (2017: RMB 20,740,000) and were then written off as at 31 December 2018 based on the aforesaid consideration and reasons. Reversal of impairment losses of approximately RMB11,252,000 in aggregate was recognised during the year ended 31 December 2018 arising from finalization of certain purchase orders/transactions made in prior year.

(b) As set out in Note 17 to the consolidated financial statements, the Group had a prepayment balance of RMB63,215,000 with an air-conditioner supplier, Nanjing Mei Zanying Electronics Sales Co. Ltd. ("Mei Zanying") as at 31 December 2017 and recognised impairment losses of RMB48,737,000 by reference to a second confirmation from Mei Zanying during the year ended 31 December 2017. The Group made no further prepayments to Mei Zanying for supply of goods since September 2018 and the employee holding a 10% interest in the air-conditioner supplier also resigned in 2018. As at 31 December 2018, the prepayment to Mei Zanying, after impairment losses, amounted to RMB Nil (2017: RMB14,478,000) which was then written off as at 31 December 2018. Reversal of impairment losses of approximately RMB7,337,000 was recognised during the year ended 31 December 2018 upon receipt of goods and confirmations from Mei Zanying and reconciliation of the transactions and balance with it.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Prior years investigation *(Continued)*

(ii) Service transactions

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

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

Up to the date of approval of these consolidated financial statements, Lucky Express never contacted the Group to produce any information to substantiate the transaction with the Former Board and therefore no payment was made to/requested by Lucky Express. In this connection, management of the Group decided not to recognise such financial consulting service fee of RMB3.69 million in its consolidated financial statements as no one within the Group had recognised such services or similar transactions been provided to it from Lucky Express based on an investigation report performed by the Audit Committee of the Company dated 14 June 2019. The directors opined that no material impact would arise from the service agreement with Lucky Express on these consolidated financial statements.

(b) Remaining unpaid service fee under a consulting service agreement

The Group made an upfront payment of RMB1.5 million in 2017 to an individual who was engaged to provide consulting services to the Group in relation to certain fund raising activities in accordance with the terms of the consulting service agreement entered into between the Group and the individual in June 2017 with a total contract amount of RMB3 million. As disclosed in the investigation report, no successful fund raising activity was completed in the past. Therefore the service agreement could be terminated without payment of the remaining service fee according to the terms of the agreement. In this connection, the remaining service fee of RMB1.5 million would not be paid nor accrued by the Group as the Former Board and the individual had verbally agreed to terminate the consulting service agreement around the end of the year 2017 as disclosed in the investigation report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Changes in accounting policy and disclosures

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

(A) New HKFRS, amendments and interpretation of HKFRSs mandatory for the financial year beginning on 1 January 2018 that are relevant to the Group's financial statements:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK(IFRIC) 22	Foreign currency transactions and advance consideration

Except for HKFRS 15 Revenue from contracts with customers and HKFRS 9 Financial Instruments, the new and revised HKFRSs have had no significant impact on the preparation of the Group's financial statements. The nature and the impact of HKFRS 15 and HKFRS 9 are described below:

HKFRS 9 Financial instruments

In the current year, the Group has applied HKFRS 9 Financial instruments and the related consequential amendments to other HKFRSs, HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application). The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 2.11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

HKFRS 9 Financial instruments (Continued)

Summary of effects arising from initial application of HKFRS 9 is as follows:

Classification and measurement

As at 1 January 2018, the category of loans and receivables under HKAS 39, including cash and cash equivalents, restricted bank deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables were transferred to category of financial assets at amortised cost under HKFRS 9.

Impairment under ECL model

The Group applied the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit-impaired under HKAS 39, those trade receivables have been assessed individually with significant outstanding balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12 month ECL, unless there has been a significant increase in credit risk since initial recognition, in which case, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

The Directors of the Company considered that measurement of ECL has no material impact to the Group's accumulated losses as at 1 January 2018.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial instruments: Recognition and Measurement and have not been changed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

HKFRS 15 Revenue from contracts with customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 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 HKFRS 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, changes in contract liability account balances between period. The disclosures are included in Notes 6. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to the revenue recognition.

The Group has adopted HKFRS 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.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance under accruals and other payables. Under HKFRS 15, the amount is classified as contract liabilities. Therefore, upon adoption of HKFRS 15, the Group reclassified approximately RMB 70,507,000 (Note 23) from "advance from customers" under accruals and other payables to "contract liabilities" in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, under HKFRS 15, approximately RMB39,780,000 (Note 24) was reclassified from "advance from customers" under accruals and other payables to "contract liabilities" in relation to the consideration received from customers in advance for the business operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018 RMB'000
Current Liabilities			
Accruals and other payables	308,645	(70,507)	238,138
Contract liabilities	—	70,507	70,507

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes during the year have not been included.

Consolidated statement of financial position as at 31 December 2018

	As reported RMB'000	Adjustment (Note i) RMB'000	Amounts without Application of HKFRS 15 RMB'000
Current Liabilities			
Accruals and other payables	97,456	39,780	137,236
Contract liabilities	39,780	(39,780)	—

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustment (Note i) RMB'000	Amounts without application of HKFRS 15 RMB'000
Operating activities			
Increase in accruals and other payables	9,195	(29,036)	(19,841)
Decrease in contract liabilities	(29,036)	29,036	—

Note (i): The adjustment represents consideration received from customers in advance

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(B) Certain new standards and amendments of HKFRSs have been published but are not yet effective for the annual period beginning on 1 January 2018 and have not been early adopted by the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 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 Effective for annual periods beginning on or after a date to be determined

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these HKFRSs is expected to have a significant impact on the consolidated financial statements, except the followings:

HKFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

HKFRS 16, Leases (Continued)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease. As disclosed in Note 41, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to approximately RMB116,080,000 for properties, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognizing a cumulative - effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Subsidiaries and non-controlling interest

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has powder, only substantive rights (held by the Group and other parties) are considered. Subsidiaries are consolidated into the consolidated financial statements from the date on which control commences until the date control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Any loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with the Group's accounting polices depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see Note 2.12), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

2.3 Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

Investments in associates or joint ventures are accounted for using the equity method of accounting in the consolidated financial statements, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recognised at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates and joint ventures *(Continued)*

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2.4 Other investments in debt and equity securities

The group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 3.3. These investments are subsequently accounted for as follows, depending on their classification.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Other investments in debt and equity securities *(Continued)*

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– fair value through other comprehensive income (FVOCI)-recycling, if the contractual cash flows of the investment comprises solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment of the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings/accumulated losses. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Other investments in debt and equity securities *(Continued)*

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see Note 2.11(B) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in the Group's accounting policies. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss.

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(b) Transactions and balances *(Continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

2.7 Land use rights for own use

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

2.8 Property, plant and equipment

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Property, plant and equipment *(Continued)*

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the reporting period.

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2.9 Investment properties

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

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

2.10 Intangible assets (other than goodwill)

(a) Computer software

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

(b) Non-compete agreements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, restricted bank deposits, trade and bills receivables and financial assets at amortised costs included in prepayments, deposit and other receivables.

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs; these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measures at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of the reporting period.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there have been a significant increase in credit risk of the financial instruments since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Credit losses and impairment of assets *(Continued)*

(ii) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the end of the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2.24 is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Credit losses and impairment of assets *(Continued)*

(ii) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses of financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Credit losses and impairment of assets *(Continued)*

(ii) Credit losses from financial instruments *(Continued)*

(C) Policy applicable prior to 1 January 2018

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account, When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

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

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Inventories – merchandise held for resale and low value consumables

Inventories comprise merchandise purchased for resale and low value consumables, and are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Cost of merchandise, representing its purchase cost, is determined by using the first-in-first-out basis for household appliance merchandise.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2.14 Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods 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.

2.15 Trade, bills and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (See Note 2.11).

2.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the Group's accounting policies (See Note 2.11).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Share capital

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

2.18 Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at fair value through profit or loss ("FVTPL").

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

– it has been acquired principally for the purpose of repurchasing it in the near term; or

– on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, accruals and other payables, and borrowings and other current liabilities are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Trade, bills and other payables

Trade, bills and other payables are recognised initially at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2.20 Borrowings and borrowing costs

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

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

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

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

2.21 Current and deferred income tax

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, and the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Outside basis differences

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

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

Offsetting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plan

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

(ii) Pension obligations (defined contribution plan)

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

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

(iii) Share-based payments

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

– including any market performance conditions;

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

– including the impact of any non-vesting conditions.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Provision and contingent liability

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made.

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

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

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

2.24 Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, 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 with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(a) Sales of goods - bulk distribution

Revenue from the sales of goods (household appliances merchandise) by bulk distribution directly to the customers (other retailers and distributors) is recognised at the point that the control of the inventory have passed to the customers, which is primarily upon the acceptance of the goods by the customers. The customers have full discretion over the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. The Group collects cash or bank acceptance notes from the customers before or upon deliveries of goods through banks. Cash or bank acceptance notes collected from the customers before goods delivery is recognised as contract liabilities (Note 2.14). No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with the market practice.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Revenue and other income *(Continued)*

(b) *Sales of goods - Retail*

The Group operates a chain of retail stores for selling household appliances and import and general merchandises. Revenue from the sales of goods (household appliances merchandise) directly to the customers is recognised at the point that the control of the inventory have passed to the customers, which is primarily upon the acceptance of the goods by the customers. The customers have full discretion over the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Revenue from retail sales are usually settled in cash or by credit or payment card. Cash or credit/payment settlement collected from the customers before goods delivery is recognised as contract liabilities (Note 2.14).

(c) *Sales of goods – Online sales*

Revenue from the sales of goods (household appliances merchandise) directly to the customers is recognised at the point that the control of the inventory have passed to the customers, which is primarily upon the acceptance of the goods by the customers. The customers have full discretion over the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Revenue from online sales are usually settled in cash or by credit or payment card. Cash or credit/payment settlement collected from the customers before goods delivery is recognised as contract liabilities (Note 2.14).

(d) *Rendering of services*

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

(e) *Revenue from other sources*

Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

Membership fee income

Membership fee income is amortised to profit or loss on a straight-line basis over the membership period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grant will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivables.

2.26 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight line basis over the terms of the relevant lease.

The Group as lessee

Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights are charged to profit or loss on a straight-line basis over the period of the lease.

Leasehold lands and buildings

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use right" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as being held under a finance lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. RESTATEMENTS

The Company has carried out a reassessment on the Group's consolidated financial statements for the prior years and identified the following misstatements. The Directors of the Company decided that the most appropriate treatment for these misstatements is to restate the comparative figures in the Group's consolidated financial statements. A detailed description of the nature of each prior year restatement is set out below. The amounts of the prior year restatements for each financial statement line item affected are presented in the tables in note 3 (i) – (iv) below.

(a) In December 2016, the Group together with an investor, Jiangsu Ruihua Investment Holding Group Co., Ltd. ("江蘇瑞華投資控股集團有限公司") ("Ruihua"), established a new entity, Nanjing Ruihu Electronic Commercial Technology Co., Ltd. ("南京瑞虎電子商務科技有限公司" ("Ruihu"), of which Ruihua had 51% equity interest in Ruihu and the Group had agreed to subscribe for 49% equity interest in Ruihu. However, the Group has not contributed any capital into Ruihu since its establishment. Ruihu also did not have any business activities since its incorporation.

There was a misstatement by omission about the financial impact of a derivative in the interest of Ruihua in prior years' consolidated financial statements as there was also a supplementary agreement signed amongst Ruihua, the Group and Mr. Cao Kuanping (the former Chairman of the Company) in the late December 2016 in respect of a right that Ruihua could request the Group and Mr. Cao Kuanping to purchase its investment in Ruihu in any of the years from 2017 to 2020 at a purchase price equivalent to the investment cost made by Ruihua plus 8% per annum if Ruihu could not meet the target profit and certain requirements in any of the years from 2017 to 2019 as set out in the supplementary agreement.

In respect of the above in prior years, adjustments were made to account for the derivative regarding the right to purchase the interest held by Ruihua upon Ruihua's request for non-fulfillment of the target profit and certain requirements by the Group as aforesaid. Details of the derivative financial instruments are set out in Note 27 to the consolidated financial statements.

3. RESTATEMENTS *(Continued)*

The following is a summary of the effects of the restatements on the Group's consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position:

(i) The Group's consolidated income statement for the year ended 31 December 2017:

	For the year ended 31 December 2017 RMB'000 (As originally stated)	Adjustment RMB'000	Reclassification (Note i) RMB'000	For the year ended 31 December 2017 RMB'000 (Restated)
Revenue	1,347,436	—	—	1,347,436
Cost of sales	(1,315,776)	—	—	(1,315,776)
Gross profit	31,660	—	—	31,660
Other income	36,101	—	—	36,101
Other losses - net	(13,134)	4,981	—	(8,153)
Impairment losses on financial assets, net	—	—	(374,713)	(374,713)
Selling and marketing expenses	(198,674)	—	—	(198,674)
Administrative expenses	(532,719)	—	374,713	(158,006)
Operating loss	(676,766)	4,981	—	(671,785)
Finance income	6,061	—	—	6,061
Finance costs	(34,935)	—	—	(34,935)
Finance costs – net	(28,874)	—	—	(28,874)
Share of loss of a joint venture	(27,500)	—	—	(27,500)
Share of loss of an associate	(122)	—	—	(122)
Loss before income tax	(733,262)	4,981	—	(728,281)
Income tax expense	(2,910)	—	—	(2,910)
Loss for the year	(736,172)	4,981	—	(731,191)
Attributable to:				
– Equity holders of the Company	(720,604)	4,981	—	(715,623)
– Non-controlling interest	(15,568)	—	—	(15,568)
	(736,172)	4,981	—	(731,191)

3. RESTATEMENTS *(Continued)*

The following is a summary of the effects of the restatements on:

(i) The Group's consolidated income statement for the year ended 31 December 2017 *(continued)*

	For the year ended 31 December 2017 RMB'000 (As originally stated)	Adjustment RMB'000	Reclassification (Note i) RMB'000	For the year ended 31 December 2017 RMB'000 (Restated)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)				
– Basic	(38.76)	0.27	—	(38.49)
– Diluted	(38.76)	0.27	—	(38.49)

Note i: Certain comparative figures of the consolidated financial statements were reclassified to conform with the current year's presentation.

(ii) The Group's consolidated statement of comprehensive income for the year ended 31 December 2017

	For the year ended 31 December 2017 RMB'000 (As originally stated)	Adjustment RMB'000	Reclassification (Note i) RMB'000	For the year ended 31 December 2017 RMB'000 (Restated)
Loss for the year	(736,172)	4,981	—	(731,191)
Other comprehensive income/loss for the year	—	—	—	—
Total comprehensive loss for the year	(736,172)	4,981	—	(731,191)
Attributable to:				
– Equity holders of the Company	(720,604)	4,981	—	(715,623)
– Non-controlling interest	(15,568)	—	—	(15,568)
	(736,172)	4,981	—	(731,191)

3. RESTATEMENTS *(Continued)*

(iii) The Group's consolidated statement of financial position as at 31 December 2017

	As at 31 December 2017 RMB'000 (As originally stated)	Adjustment RMB'000	As at 31 December 2017 RMB'000 (Restated)
Assets			
Non-current assets			
Land use rights	27,740	—	27,740
Property, plant and equipment	183,377	—	183,377
Investment properties	5,235	—	5,235
Intangible assets	851	—	851
Interest in joint venture	—	—	—
Interest in associates	—	—	—
	217,203	—	217,203
Current assets			
Inventories	257,977	—	257,977
Trade and bills receivables	39,842	—	39,842
Prepayments, deposits and other receivables	165,607	—	165,607
Restricted bank deposits	278,350	—	278,350
Cash and cash equivalents	56,496	—	56,496
	798,272	—	798,272
Total assets	1,015,475	—	1,015,475

3. RESTATEMENTS *(Continued)*

The following is a summary of the effects of the restatements on:

(iii) The Group's consolidated statement of financial position as at 31 December 2017 *(Continued)*

	As at 31 December 2017 RMB'000 (As originally stated)	Adjustment RMB'000	As at 31 December 2017 RMB'000 (Restated)
Equity			
Share capital	13,739	—	13,739
Reserves	(212,033)	(27,575)	(239,608)
	198,294	(27,575)	(225,869)
Non-controlling interests	28,756	—	28,756
Total equity	(169,538)	(27,575)	(197,113)
Liabilities			
Non-current liabilities			
Borrowings	7,062	—	7,062
Current liabilities			
Trade and bills payables	683,732	—	683,732
Accruals and other payables	308,645	—	308,645
Borrowings	131,289	—	131,289
Current income tax liabilities	725	—	725
Derivative financial instruments	—	27,575	27,575
Other current liabilities	53,560	—	53,560
	1,177,951	27,575	1,205,526
Total liabilities	1,185,013	27,575	1,212,588

3. RESTATEMENTS *(Continued)*

The following is a summary of the effects of the restatements on:

(iv) The Group's consolidated statement of financial position as at 1 January 2017

	As at 1 January 2017 RMB'000 (As originally stated)	Adjustment RMB'000	As at 1 January 2017 RMB'000 (Restated)
Assets			
Non-current assets			
Land use rights	45,857	—	45,857
Property, plant and equipment	225,737	—	225,737
Investment properties	5,405	—	5,405
Intangible assets	3,744	—	3,744
Interest in joint venture	—	—	—
Interest in associates	934	—	934
Deferred tax assets	11,486		11,486
	293,163	—	293,163
Current assets			
Inventories	228,547	—	228,547
Trade and bills receivables	68,524	—	68,524
Prepayments, deposits and other receivables	499,756	—	499,756
Restricted bank deposits	646,712	—	646,712
Cash and cash equivalents	159,118	—	159,118
	1,602,657	—	1,602,657
Total assets	1,895,820	—	1,895,820

3. RESTATEMENTS *(Continued)*

The following is a summary of the effects of the restatements on:

(iv) The Group's consolidated statement of financial position as at 1 January 2017 (Continued)

	As at 1 January 2017 RMB'000 (As originally stated)	Adjustment RMB'000	As at 1 January 2017 RMB'000 (Restated)
Equity			
Share capital	11,462	—	11,462
Reserves	302,852	(32,556)	270,296
	314,314	(32,556)	281,758
Non-controlling interests	22,436	—	22,436
Total equity	336,750	(32,556)	304,194
Liabilities			
Non-current liabilities			
Borrowings	7,358	—	7,358
Deferred tax liabilities	211	—	211
Deferred government grant	2,701	—	2,701
	10,270	—	10,270
Current liabilities			
Trade and bills payables	850,852	—	850,852
Accruals and other payables	326,047	—	326,047
Borrowings	305,084	—	305,084
Current income tax liabilities	13,257	—	13,257
Derivative financial instruments	—	32,556	32,556
Other current liabilities	53,560	—	53,560
	1,548,800	32,556	1,581,356
Total liabilities	1,559,070	32,556	1,591,626

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000 (Restated)
Financial assets		
Equity investment designated at fair value through other comprehensive income	**600**	—
Financial assets at amortised cost	**123,183**	—
Loans and receivables (including cash and cash equivalents)	**—**	412,593
	123,783	412,593

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Financial liabilities		
Fair value through profit or loss		
Derivative financial instruments	**26,178**	27,575
At amortised cost	**705,374**	1,109,740
	731,552	1,137,315

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(b) Foreign exchange risk

The Group operates mainly in the PRC and is exposed to foreign exchange risk with respect to primarily HK dollar and US dollar. Foreign exchange risk arises from recognised assets and liabilities. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the year ended 31 December 2018 and 2017.

As at 31 December 2018, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currencies of the respective group entities are as follows:

	31 December 2018		31 December 2017	
	HK Dollar RMB'000	**US Dollar RMB'000**	HK Dollar RMB'000 (Restated)	US Dollar RMB'000 (Restated)
Cash and bank balances	**26,679**	**239**	220	275
Accruals and other payables	**(25,410)**	**—**	—	—
Borrowings	**(7,616)**	**—**	(7,062)	(16,989)

As at 31 December 2018, if RMB had weakened/strengthened by 5% (2017: 5%), against HK Dollar with all other variables held constant, pre-tax loss for the year would have been approximately (RMB317,000) higher/lower (2017: pre-tax loss for the year (RMB342,000) (Restated), higher/lower), mainly as a result of foreign exchange gains/losses on translation of HK dollar-denominated cash and bank balances, accruals and other payables, and borrowings.

As at 31 December 2018, if RMB had weakened/strengthened by 5% (2017: 5%), against US dollar with all other variables held constant, pre-tax loss for the year would have been approximately RMB12,000 lower/higher (2017: pre- tax loss for the year: (RMB836,000) (Restated), higher/lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash and bank balances, and borrowings.

(c) Cash flow and fair value interest rate risk

Other than bank deposits with stable interest rate (Notes 18 and 19), the Group has no other significant interest-bearing assets. The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, as the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. As at 31 December 2018, borrowings obtained at variable rates amounted to RMB Nil (2017: RMB16,989,000). As at 31 December 2018, borrowings at fixed rates comprise bank borrowings of approximately RMB38,000,000 (2017: RMB114,200,000) and other borrowings/advances of approximately RMB369,525,000 (2017: RMB167,100,000). Borrowings at fixed rates exposed the Group to fair value interest rate risk. The Group did not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 23 and Note 25.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Credit risk

Majority of the Group's retail sales are settled in cash, credit/other payment cards, bank acceptance bills or telegraph bank transfers by its customers upon delivery of goods. The carrying amounts of the bank balances, trade and bills receivables, and other financial assets included in prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

(i) Deposits with banks

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

	Rating (Note)	As at 31 December	
		2018 **RMB'000**	2017 RMB'000
Five largest restricted bank deposits			
– Agricultural Bank of China	A-1	**23,100**	—
– Huishang Bank	N/A	**11,850**	—
– China Merchants Bank	A-2	**2,100**	—
– Shanghai Pudong Development Bank	A-2	**—**	82,400
– China Minsheng Bank	A-3	**10**	40,400
– China Guangfa Bank	N/A	**—**	38,000
– Bank of China	A-1	**2,000**	36,500
– Bank of Communications	A-2	**—**	30,000
		39,060	227,300

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(i) Deposits with banks (Continued)

	Rating (Note)	As at 31 December 2018 RMB'000	2017 RMB'000
Five largest cash and cash equivalents			
– China Minsheng Bank	A-3	—	15,127
– China Merchants Bank	A-2	—	9,875
– Industrial and Commercial Bank	A-1	—	8,804
– Agriculture bank of China	A-1	**35,967**	6,053
– Bank of China	A-1	**5,922**	7,404
– China Construction Bank	A-1	**3,362**	—
– Bank of Communications	A-2	**1,771**	—
– Huishang Bank	N/A	**736**	—
		47,758	47,263

Note:

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

(ii) Receivables

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

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

The Group assess the credit quality of other receivables by taking into account various factors including their financial position, past experience and other factors.

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

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

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(I) The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
Current (not past due)	5%	17,911	895
1-8 months past due	5%	4,786	239
9–20 months past due	47%	2,745	1,290
21 months or over past due	54%- 100%	13,064	12,983
		38,506	15,407

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (See Note 2.11(B) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of approximately RMB 14,253,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	20,653
1-8 months past due	3,245
9-20 months past due	—
21 months or over past due	—

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(I) Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade receivables during the year ended 31 December 2017 is as follows:

	2017 RMB'000
As at 1 January 2017	3,253
Impairment losses recognised in profit or loss during the year ended 31 December 2017	11,000
As at 31 December 2017	14,253

As at 31 December 2018, the Group has provided RMB 15,407,000 of impairment allowance for credit-impaired trade receivables.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (Credit-impaired) RMB'000
As at 31 December 2017 – HKAS 39 and at 1 January 2018 – HKFRS 9	14,253
Impairment losses recognised in profit or loss during the year	1,154
As at 31 December 2018	15,407

Changes in loss allowance for trade receivables are mainly due to increase in trade receivables with aging over 1 year resulted in an increase in loss allowance.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(II) Other receivables, deposits and other financial assets are measured at amortised cost. To measure the expected credit losses of financial assets at amortised cost as included in prepayments, deposits and other receivables have been grouped based on credit risk characteristics and internal credit risk assessment.

Impairment loss allowance provision movement

As at 31 December 2018, the impairment loss allowance provision for financial assets at amortised cost as included in prepayments, deposits and other receivables reconciles to the opening impairment loss allowance provision as follows:

	Loans and receivables as included in "Prepayments, deposits and other receivables"		
Impairment loss allowance provision movement	**Other receivables RMB'000**	**Prepayments to Suohai and Zhipu RMB'000**	**Total RMB'000**
As at 1 January 2017 – HKAS 39	8,525	—	8,525
Impairment loss allowance against prepayments to two television set suppliers (Note 17)	—	366,623	366,623
Amounts written off against other receivables	(4,025)	—	(4,025)
Reversal of impairment loss on other receivables	(2,910)	—	(2,910)
As at 31 December 2017	1,590	366,623	368,213

	Financial assets at amortised cost as included in "Prepayments, deposits and other receivables"		
	12 month ECL	**Lifetime ECL (credit-impaired)**	
Impairment loss allowance provision movement	**Other receivables RMB'000**	**Prepayments to Suohai and Zhipu RMB'000**	**Total RMB'000**
As at 31 December 2017 – HKAS 39 and at I January 2018 – HKFRS 9	1,590	366,623	368,213
Reversal of allowance against two television set suppliers upon settlement during the year	—	(11,252)	(11,252)
Impairment loss allowance against other Receivables	4,798	—	4,798
Prepayments to two television set suppliers written off (Note 17)	—	(355,371)	(355,371)
As at 31 December 2018	6,388	—	6,388

Write-off of prepayments to Suohai and Zhipu with gross carrying amount of RMB355 million resulted in a decrease in loss allowance of RMB355 million.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(II) The following table provides information about the Group's exposure to credit risk and ECLs for financial assets at amortised cost as included in prepayments, deposits and other receivables as at 31 December 2018.

(a) Other receivables – 12 month ECL

	Expected loss rate	Gross carrying amount	Loss allowance
Within 1 year (Medium risk)	20.97%	12,059	2,530
Over 1 year (Medium risk)	60.39%	6,388	3,858
		18,447	6,388

(b) Prepayment to two television set suppliers as set out in Note 17(a)(i). These two suppliers were in default with full impairment made by using Lifetime ECL as they had been credit-impaired. As at 31 December 2018, prepayments to these two suppliers were written off as the Group has no realistic prospect of recovery due to severe litigation with potential difficulties in enforcing any judgement against them.

(III)

Reversal of impairment losses/(Impairment losses) on financial assets, net	For the year ended 31 December **2018** **RMB'000**	 2017 RMB'000 (Restated)
Trade receivables	**(1,154)**	(11,000)
Financial assets at amortised cost as included in prepayments, deposits and other receivables	**6,454**	(363,713)
	5,300	(374,713)

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(IV) The Group's internal assessment in respect of other receivables, deposits and other financial assets at amortised cost comprises the following categories:

Internal credit assessment	Description	Other receivables, deposits and other financial assets at amortised cost
Low risk	The counterparty has a low risk of default and does not have any past due amounts	12 month ECL
Medium risk	Debtors frequently repay after due date but usually settle after due date	12 month ECL
Watch list	There have been significant increase in credit risk since initial recognition through internal or external resources	Lifetime ECL – not credit impaired
Doubtful	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and litigation, and the Group has no realistic prospect of recovery.	Amount is written off

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(e) Liquidity risk

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

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Contractual undiscounted cash flow			
	Within 1 year RMB'000	**Over 1 year RMB'000**	**Total RMB'000**	**Carrying Amount RMB'000**
As at 31 December 2018				
Non-derivative financial liabilities				
Bank borrowings	**38,952**	**—**	**38,952**	**38,000**
Bonds payables	**526**	**10,470**	**10,996**	**7,616**
Trade and bills payables	**161,654**	**—**	**161,654**	**161,654**
Accruals and other payables	**99,953**	**371,976**	**471,929**	**444,544**
Other current liabilities	**53,560**	**—**	**53,560**	**53,560**
Subtotal	**354,645**	**382,446**	**737,091**	**705,374**
Derivative financial instruments				
Derivative in the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd.	**26,178**	**—**	**26,178**	**26,178**
	380,823	**382,446**	**763,269**	**731,552**
As at 31 December 2017 (Restated)				
Bank borrowings	133,385	—	133,385	131,289
Bonds payables	502	10,490	10,992	7,062
Trade and bills payables	683,732	—	683,732	683,732
Accruals and other payables	236,154	—	236,154	234,097
Other current liabilities	53,560	—	53,560	53,560
Subtotal	1,107,333	10,490	1,117,823	1,109,740
Derivative financial instruments				
Derivative in the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd	27,575	—	27,575	27,575
	1,134,908	10,490	1,145,398	1,137,315

Note:

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2018 and 2017 without taking into account of future borrowings.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Capital risk management

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

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

The capital structure of the Group consists of cash and cash equivalents of approximately RMB48,075,000 as at 31 December 2018 (31 December 2017: RMB56,496,000) and equity attributable to owners of the Company of approximately (RMB193,686,000) as at 31 December 2018 (31 December 2017: (RMB225,869,000) (Restated)), comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with its capital.

4.3 Fair value measurement

Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

In estimating the fair value of a financial asset or financial liability, the Group uses market-observable data to the extent it is available. When level 1 inputs are not available, the Group performed discounted cash flow to derive the present value of other investments or engages third party qualified valuers to perform the valuation of the derivative in the respect of the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd. The Directors work closely with the qualified valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the directors every half of the year to explain the cause of fluctuations in the fair value of the financial assets and financial liabilities.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.3 Fair value measurement *(Continued)*

(ii) Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

The following financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique and inputs used).

Financial assets/ Financial liabilities	Fair value as at 41 December 2018 RMB'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted equity investment designated at fair value through other comprehensive income	RMB600 (31/12/2017: N/A)	Level 3	Discounted cash flow approach of the income method; growth rate and discount rate	Growth rate: 5% (2017: N/A) Discount rate: 8% (2017: N/A)	The higher the growth rate, the higher the fair value of the equity investment The higher the discount rate, the lower the fair value of the equity investment
Derivative of the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd.	RMB26,178 (31/12/2017 (Restated): RMB27,575)	Level 3	Binomial Tree Model; the key inputs are volatility, and risk free rate	Volatility: 60% (2017: 60.9%) Risk free rate: 2.8% (2017:3.8%)	The higher the risk free rate, the lower the fair value of the derivative The higher the volatility, the higher the fair value of the derivative

There were no transfers between Level 1, 2 and 3 during the year (2017: Nil).

Included in other gains/(losses) net as set out in note 31, an unrealised gain on change in fair value of the derivative financial instrument of approximately RMB1,397,000 was recognised in profit or loss during the year ended 31 December 2018 (31/12/2017 (Restated): an unrealised gain on change in fair value of the derivative financial instrument of approximately RMB4,981,000 was recognised in profit or loss). Details of them are set out in the reconciliation.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.3 Fair value measurement *(Continued)*

(iii) Reconciliation of Level 3 fair value measurements

31 December 2018

	Unlisted equity investment designated at fair value through other comprehensive income RMB'000	Derivative of the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd. RMB'000	Total RMB'000
31/12/2017 (Restated)	—	(27,575)	(27,575)
Purchase of investment during the year	600	—	600
Fair value gain recognised in profit or loss	—	1,397	1,397
31/12/2018	600	(26,178)	(25,578)

31 December 2017 (Restated)

	Unlisted equity investment designated at fair value through other comprehensive income RMB'000	Derivative of the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd. RMB'000	Total RMB'000
01/01/2017 (Restated)	—	(32,556)	(32,556)
Fair value gain recognised in profit or loss	—	4,981	4,981
31/12/2017 (Restated)	—	(27,575)	(27,575)

(iv) Fair value of financial assets and financial liabilities that are not measured at fair value

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values as at 31 December 2018 and 2017.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(i) Accruals of supplier rebate receivables

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

(ii) Provision for supplier rebate receivables

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

Impairment of supplier rebate receivables is made, if necessary, taking into consideration of changes in the economic conditions, the credit quality and financial position of the suppliers. During the year ended 31 December 2018, no impairment for the supplier rebate receivables was recognised. In 2017, the impairment of approximately RMB17,412,000 for the supplier rebate receivables was recognised in 'administrative expenses' (Note 33).

(b) Net realisable value of inventories

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

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

The Group follows HKAS 36 to determine whether non-financial assets have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less cost of disposal and value in use. The value in use calculations require the use of estimates. In case the recoverable amount is determined with reference to the fair value less costs of disposal, when the fair value less cost of disposal are less than expected or there are unfavourable events and changes in facts and circumstances which result in revision of fair value less costs of disposal, a material impairment may arise.

During the year, the Group made impairment losses of approximately RMB1,500,000 on leasehold improvements (Note 8). In 2017, the Group made impairment of approximately RMB45,019,000 in aggregate on land use right (Note 7), property, plant and equipment (Note 8) and intangible assets (Note 10).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

In addition, the Group made impairment losses of approximately RMB1,019,000 on prepayments to other suppliers during the year ended 31 December 2018 (2017 : Reversal of impairment on prepayment to other suppliers of RMB39,976,000).

Details of impairment on supplier rebate receivables are set out in Note 5(a) and Note 17(b).

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

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

(e) Fair value measurement of financial instruments

Certain of the Group's financial assets and financial liabilities as described in Note 4.3 are measured at fair value with fair values being determined based on unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments.

(f) Provision for ECL for trade receivables and financial assets at amortised cost included in prepayments, deposits and other receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs or effort. At the end of reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, financial assets at amortised cost included in prepayments, deposits and other receivables with significant balances and credit-impaired are assessed for ECL individually. In respect of other financial assets at amortised cost as included in prepayments, deposits and other receivables, to measure the expected credit losses have been grouped based on credit risk characteristics and internal credit risk assessment.

The provision of ECL is sensitive to changes in estimates. The information about the ECL are disclosed in Note 4, 16 and 17 to the consolidated financial statements.

6. REVENUE AND SEGMENT INFORMATION

(i) Revenue

The principal activities of the Group are mainly engaged in the retail of household appliance, import merchandise and provision of maintenance and installation services for household appliances in the PRC.

Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Types of goods and services		
Sales of goods		
– Traditional business	**849,132**	1,130,560
– New retail business	**64,216**	203,527
	913,348	1,334,087
Rendering of services		
– Maintenance and installation service	**7,459**	13,349
Total revenue	**920,807**	1,347,436

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Timing of revenue recognition		
A point in time	**920,807**	1,347,436

(ii) Segment Information

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

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

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Segment Information *(Continued)*

During the year ended 31 December 2017, the Group made adjustment to its business strategies, resources allocation and internal reporting to adapt to the market conditions. The Directors determined to re-organise the principal operations of the Group into two main operating segments:

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

All other segments included the results from rendering maintenance and installation services.

Inter-segment sales are charged at cost plus certain mark-up.

The segment results for the year ended 31 December 2018 are as follows:

Segment results	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	896,561	64,216	7,459	—	968,236
Inter-segment revenue	(47,429)	—	—	—	(47,429)
Revenue from external customers	849,132	64,216	7,459	—	920,807
Operating loss	(100,436)	(29,941)	(7,799)	(6,145)	(144,321)
Finance costs – net					(21,665)
Share of loss of a joint venture					—
Share of loss of an associate					—
Loss before income tax					(165,986)
Income tax credit					174
Loss for the year					(165,812)
Other segment items are as follows:					
Capital expenditure	32,404	425	1,132	—	33,961
Addition of other non-current asset	—	—	—	600	600
Depreciation charge	8,843	1,567	202	—	10,612
Amortisation charge	1,630	—	32	—	1,662
Reversal of write - down of inventories	(15,737)	—	—	—	(15,737)
Impairment loss on property, plant and equipment	1,483	—	17	—	1,500
Impairment loss on trade receivables	705	437	12	—	1,154
Impairment loss on other receivables	4,714	23	61	—	4,798
Reversal of impairment on prepayments to Suohai, Zhipu and Mei Zanying	(17,897)	—	(692)	—	(18,589)
Impairment loss on prepayments to other suppliers	343	327	349	—	1,019

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Segment Information *(Continued)*

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

Segment results	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	1,154,900	203,527	13,349	—	1,371,776
Inter-segment revenue	(24,340)	—	—	—	(24,340)
Revenue from external customers	1,130,560	203,527	13,349	—	1,347,436
Operating (loss)/profit	(621,393)	(66,914)	(8,374)	24,896	(671,785)
Finance costs – net					(28,874)
Share of loss of a joint venture					(27,500)
Share of loss of an associate					(122)
Loss before income tax					(728,281)
Income tax expense					(2,910)
Loss for the year					(731,191)
Other segment items are as follows:					
Capital expenditure	3,247	8,923	—	27,500	39,670
Depreciation charge	17,941	2,121	633	31	20,726
Amortisation charge	2,577	1,063	19	—	3,659
Write-down of inventories	20,108	—	—	—	20,108
Impairment loss on property, plant and Equipment	28,361	—	—	—	28,361
Impairment loss on land use right	11,403	—	—	—	11,403
Impairment loss on intangible assets	—	5,255	—	—	5,255
Impairment loss on trade receivables	10,873	113	14	—	11,000
Impairment loss on prepayments to Suohai, Zhipu and Mei Zanying	415,360	—	—	—	415,360
Reversal of impairment loss on other receivables	(2,910)	—	—	—	(2,910)
Impairment loss/(reversal of impairment loss) on prepayments to other suppliers	761	—	6	(40,743)	(39,976)
Impairment loss on rebate receivables from suppliers	17,412	—	—	—	17,412
Impairment loss on interest in an associate	812	—	—	—	812

Unallocated mainly represented the expenses incurred by the Group, such as certain key management compensation and exchange gains/(losses) arising from the bank deposits denominated in foreign currencies.

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

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Segment Information *(Continued)*

Segment assets and liabilities as at 31 December 2018 are as follows:

Segment assets and liabilities	**Traditional business RMB'000**	**New retail business RMB'000**	**All other segments RMB'000**	**Group RMB'000**
Segment assets	**430,849**	**44,776**	**28,978**	**504,603**
Unallocated assets				**97,282**
Total assets				**601,885**
Segment liabilities	**653,916**	**14,427**	**14,724**	**683,067**
Unallocated liabilities				**89,717**
Total liabilities				**772,784**

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

Segment assets and liabilities	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Group RMB'000
Segment assets	648,069	72,621	11,327	732,017
Unallocated assets				283,458
Total assets				1,015,475
Segment liabilities	905,648	63,067	10,459	979,174
Unallocated liabilities				233,414
Total liabilities				1,212,588

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

Segment liabilities comprise operating liabilities and exclude items such as current income tax liabilities, borrowings and corporate liabilities of the management companies and investment holding companies.

7. LAND USE RIGHTS

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net book amount	**27,740**	45,857
Additions	**5,214**	—
Amortisation (Note 33)	**(797)**	(1,199)
Disposal (Note b below)	**—**	(5,515)
Impairment (Note c below)	**—**	(11,403)
Closing net book amount	**32,157**	27,740
Cost	**50,703**	45,489
Accumulated depreciation	**(7,143)**	(6,346)
Accumulated impairment	**(11,403)**	(11,403)
Closing net book amount	**32,157**	27,740

All of the Group's land use rights are located in Mainland China and are held on leases between 27 to 40 years.

(a) Amortisation of land use rights

Amortisation of the Group's land use rights has been charged in profit or loss and included in the administrative expenses.

(b) Disposal of land use rights

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

(c) Impairment of land use rights

As at 31 December 2017, impairment charge of RMB11,403,000 and RMB5,237,000 (Note 8) had been provided for the land use rights and its associated buildings respectively under the line item of "administrative expenses" as their carrying values exceed their recoverable amounts. The estimates of recoverable amount was calculated based on the valuation applying income approach, which is categorized as a Level 3 measurement, to value the fair value of the properties less cost of disposal as the recoverable amount. The valuation took into account expected market rental growth, yield rate and the occupancy rate of the respective properties. The yield rate used for the valuation was 7%.

(d) Pledge of land use rights

As at 31 December 2018, land use rights with the carrying amount of approximately RMB32,157,000 (2017: RMB27,740,000) and the relevant buildings with the carrying amount of approximately RMB180,259,000 (2017: RMB161,807,000) have been pledged to banks and an independent third party (2017: banks) for general bank and credit facilities granted to the Group (Note 25 and Note 23).

8. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronics and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017						
Cost	218,758	32,103	11,880	72,124	—	334,865
Accumulated depreciation	(44,385)	(13,154)	(9,578)	(42,011)	—	(109,128)
		—	—	—	—	
Net book amount	174,373	18,949	2,302	30,113	—	225,737
Year ended 31 December 2017						
Opening net book amount	174,373	18,949	2,302	30,113	—	225,737
Additions	—	2,974	2,213	1,577	—	6,764
Disposals	—	(96)	(111)	—	—	(207)
Depreciation	(7,329)	(3,514)	(1,147)	(8,566)	—	(20,556)
Impairment	(5,237)	—	—	(23,124)	—	(28,361)
Net book amount	161,807	18,313	3,257	—	—	183,377
At 31 December 2017						
Cost	218,758	34,811	13,578	39,772	—	306,919
Accumulated depreciation	(51,714)	(16,498)	(10,321)	(16,648)	—	(95,181)
Accumulated impairment	(5,237)	—	—	(23,124)	—	(28,361)
Net book amount	161,807	18,313	3,257	—	—	183,377
Year ended 31 December 2018						
Opening net book amount	**161,807**	**18,313**	**3,257**	**—**	**—**	**183,377**
Additions	**23,903**	**798**	**1,030**	**2,705**	**—**	**28,436**
Disposals	**(50)**	**(873)**	**(1,184)**	**—**	**—**	**(2,107)**
Disposals of subsidiaries	**—**	**(3,984)**	**(3)**	**—**	**—**	**(3,987)**
Depreciation	**(5,401)**	**(3,074)**	**(763)**	**(1,205)**	**—**	**(10,443)**
Impairment	**—**	**—**	**—**	**(1,500)**	**—**	**(1,500)**
Net book amount	**180,259**	**11,180**	**2,337**	**—**	**—**	**193,776**
At 31 December 2018						
Cost	**242,597**	**25,584**	**10,032**	**30,962**	**—**	**309,175**
Accumulated depreciation	**(57,101)**	**(14,404)**	**(7,695)**	**(10,900)**	**—**	**(90,100)**
Accumulated impairment	**(5,237)**	**—**	**—**	**(20,062)**	**—**	**(25,299)**
Net book amount	**180,259**	**11,180**	**2,337**	**—**	**—**	**193,776**

8. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) Depreciation of property, plant and equipment

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Selling and marketing expenses	**5,117**	11,268
Administrative expenses	**5,326**	9,288
	10,443	20,556

(b) Impairment of property, plant and equipment

As at 31 December 2017, impairment losses of RMB11,403,000 and RMB5,237,000 (Note 7 and 8) had been made for the land use rights and its related buildings respectively as their carrying values exceed their recoverable amounts. The estimates of recoverable amount was calculated based on the valuation applying income approach, which is categorized as a Level 3 measurement, to value the fair value of the properties less cost of disposal as the recoverable amount. The valuation took into account expected market rental growth, yield rate and the occupancy rate of the respective properties. The yield rate used for the valuation was 7%.

As at 31 December 2018, impairment losses of RMB1,500,000 (2017: RMB23,124,000) had been made for the leasehold improvements under the line item of "administration expenses" as the carrying amounts of these assets were not expected to be recoverable in the future due to the fact that the operating results of the cash generating units of the retail of household appliance, import merchandise and provision of maintenance and installation services were loss making continuously for the current and prior years. The estimates of recoverable amount was determined based on value-in-use calculation using a discount rate of 10%, which is categorized as a Level 3 measurement.

(c) All buildings and properties are located in Mainland China and are held on leases between 27 to 40 years.

(d) Pledge of property, plant and equipment

As at 31 December 2018, Buildings with the aggregate carrying amount of approximately RMB180,259,000 (2017: RMB 161,807,000) and the relevant land use rights with the aggregate carrying amount of approximately RMB32,157,000 (2017: RMB27,740,000) have been pledged to banks and an independent third party (2017: banks) for general bank and other credit facilities granted to the Group (Note 23 and Note 25).

9. INVESTMENT PROPERTIES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At 1 January	**5,235**	5,405
Depreciation (Note 33)	**(169)**	(170)
Closing net book amount	**5,066**	5,235
Cost	**7,146**	7,146
Accumulated depreciation	**(2,080)**	(1,911)
Closing net book amount	**5,066**	5,235

Investment properties are located in Mainland China and are held on medium term leases.

(a) Depreciation of the investment property

Depreciation of investment properties has been charged to profit or loss and included in administrative expenses.

(b) The fair value of the Group's investment properties of approximately RMB5,297,000 as at 31 December 2018 (2017: RMB5,580,000) has been determined by the management of the Group using discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question. The fair value measurement falls under level 3 of the fair value hierarchy.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

(c) Pledge of the investment property

As at 31 December 2018, investment properties together with certain land use rights (Note 7) and buildings (Note 8) have been pledged as collateral to an independent third party for the credit facility granted to the Group. (2017: Pledged as collateral to a bank for general banking facility granted to the Group (Note 25 and Note 23).

10. INTANGIBLE ASSETS

	Non-compete agreements RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2017			
Cost	4,970	10,237	15,207
Accumulated amortization	(4,970)	(6,493)	(11,463)
Impairment	—	—	—
Net book amount	—	3,744	3,744
Year ended 31 December 2017			
Opening net book amount	—	3,744	3,744
Additions	—	5,406	5,406
Amortisation (Note 33)	—	(2,460)	(2,460)
Disposal	—	(584)	(584)
Impairment loss	—	(5,255)	(5,255)
Closing net book amount	—	851	851
At 31 December 2017			
Cost	4,970	15,059	20,029
Accumulated amortisation	(4,970)	(8,953)	(13,923)
Impairment	—	(5,255)	(5,255)
Net book amount	—	851	851
Year ended 31 December 2018			
Opening net book amount	**—**	**851**	**851**
Additions	**—**	**311**	**311**
Amortisation (Note 33)	**—**	**(865)**	**(865)**
Closing net book amount	**—**	**297**	**297**
At 31 December 2018			
Cost	**4,970**	**8,407**	**13,377**
Accumulated amortisation	**(4,970)**	**(8,110)**	**(13,080)**
Accumulated impairment	**—**	**—**	**—**
Net book amount	**—**	**297**	**297**

During the year ended 31 December 2017, the impairment losses on computer software of RMB5,255,000 was recognised in "administrative expenses" because the related computer software have not been in use resulting from the restructuring of the new retail segment business.

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

11. INTEREST IN JOINT VENTURE

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
At 1 January	**—**	—
Capital contribution or loan	**—**	27,500
Share of loss	**—**	(27,500)
Closing net book amount	**—**	—

The Group has the following joint venture as at 31 December 2018:

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

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

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

During the period from 22 January 2017 to 31 December 2017, Huisheng recorded a net loss of approximately RMB60,738,000 and the Group recognised a share of net loss of Huisheng of RMB27,500,000 which reduced its investment to zero.

During the year ended 31 December 2018, the Group's share of losses exceeds its interest in joint venture, the Group's interest was reduced to nil and recognition of further losses is discontinued.

Management of the Group considered that there were no material contingent liabilities relating to the Group's interest in Huisheng which should be recognised as at 31 December 2017 and 2018.

12. INTEREST IN ASSOCIATES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
At 1 January	**—**	934
Share of loss	**—**	(122)
Impairment loss	**—**	(812)
At 31 December		
Net carrying amount	**—**	—

The Group has the following principal associate as at 31 December 2018:

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

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

Huazhang has a registered capital of RMB5,000,000 of which Yangzhou Shengshi contributed RMB750,000 in cash, and the principal activities of Huazhang was trading of household appliances. The Group recognised its share of Huazhang's net loss for the year ended 31 December 2017. As Huazhang's business operations had become inactive since September 2017, management of the Group assessed that the likelihood for the recoverability of the Group's investment is remote and therefore the Group further recognised an impairment loss of RMB812,000 to fully provide for its investment exposure in Huazhang.

During the year ended 31 December 2018, Huazhang remained inactive and no loss or profit generated from its operations. There are no material contingent liabilities relating to the Group's interest in Huazhang which should be recognised as at 31 December 2017 and 2018.

13. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Unlisted equity investment, at fair value		
– 南京雲澤網絡科技有限公司	**600**	—
	600	—

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature. The equity investment represents 12% of unlisted equity issued by南京雲澤網絡科技有限公司, a private entity established in the PRC.

The Group has determined the fair value of the equity investment designated at fair value through other comprehensive income by discounted cash flow approach of the income method.

No dividend was received from the equity investment during the year (2017: RMB Nil).

14. DEFERRED TAX ASSETS AND LIABILITIES

Movement of each component of deferred tax assets

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Tax losses RMB'000	Accrued volume discounts of distributors RMB'000	Accrued expenses RMB'000	Unrealised profits elimination RMB'000	Provisions RMB'000	Total RMB'000
At 1 January 2017	5,390	—	3,196	2,862	38	11,486
Charged to profit or loss	(5,390)	—	(3,196)	(2,862)	(38)	(11,486)
At 31 December 2017 and 2018	—	—	—	—	—	—

14. DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

	Withholding tax on unremitted earnings of PRC subsidiaries RMB'000
At 1 January 2017	211
Credited to profit or loss	(211)
At 31 December 2017 and 31 December 2018	—

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB1,435,426,000 (2017: RMB1,301,610,000) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. Tax Losses expire from 2019 to 2023.

At the end of the reporting period, the Group has deductible temporary differences mainly in respect of impairment of certain assets in aggregate of approximately RMB466,013,000 (31 December 2017: RMB466,013,000). No deferred tax asset has been recognised in relation to the deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The Group has no significant unrecognised deferred tax liabilities as at 31 December 2018 and 2017.

15. INVENTORIES

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Merchandise held for resale	**163,215**	279,932
Write-down of inventories for obsolescence	**(5,846)**	(22,231)
	157,369	257,701
Low value consumables	**161**	276
Total	**157,530**	257,977

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

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Included in cost of sales		
– Carrying amount of merchandise sold	**912,022**	1,293,677
– (Reversal of write-down)/Write down of inventories for obsolescence (Note 33)	**(15,737)**	20,108
	896,285	1,313,785

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realizable value of certain merchandise as a result of a change in consumer preferences.

16. TRADE AND BILLS RECEIVABLES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	**38,506**	38,151
Less: Provision for impairment	**(15,407)**	(14,253)
Trade receivables, net	**23,099**	23,898
Bills receivable	**890**	15,944
Trade and bills receivables, net	**23,989**	39,842

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

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
0 - 30 days	**13,613**	16,877
31 - 90 days	**4,298**	3,776
91 - 365 days	**4,786**	3,245
1 year - 2 years	**2,745**	12,332
2 years - 3 years	**12,176**	1,059
Over 3 years	**888**	862
Total	**38,506**	38,151

All trade and bills receivables are denominated in RMB and their carrying amounts approximate their fair values as at the end of the reporting period.

The maximum exposures of the Group to credit risk from trade and bills receivables as at the end of the reporting period were the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 4.

As at 31 December 2018, bills receivable with an amount of RMB Nil (2017: RMB13,000,000) was pledged as collateral to bank for general banking facility (2017: bank borrowings of approximately RMB11,700,000) granted to the Group.

As at 31 December 2018 and 31 December 2017, no bills receivable were discounted to the bank with recourse.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Prepayments to suppliers, net of provision (note (a))	**47,250**	98,564
Rebate receivable from suppliers, net of provision (note (b))	**461**	—
Prepaid rentals	**8,517**	8,805
Deposits	**2,323**	7,876
Other prepayments	**—**	3
Other receivables from third parties, net of provision		
– Value added tax recoverable	**33,049**	41,070
– Amount due from a third party for disposal of a Subsidiary	**—**	2,000
– Interests receivable from banks	**129**	886
– Amount paid on behalf of certain suppliers	**674**	2,482
– Staff advances	**1,411**	1,750
– Others (note (c))	**7,521**	2,171
	101,335	165,607

Note:

(a) Prepayments to suppliers, net of provision

Prepayments to suppliers, include the following items:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Gross amounts		
Yangzhou Suohai Electronics Co. Ltd ("Suohai") (i)	**216,456**	225,887
Jiangsu Zhipu Electronics Appliance Co. Ltd ("Zhipu") (i)	**138,915**	161,476
Nanjing Mei Zanying Electronic Sales Co. Ltd ("Mei Zanying") (ii)	**41,400**	63,215
Others (iii)	**49,036**	64,113
Amounts written off	**(396,771)**	—
Subtotal	**49,036**	514,691
Impairment losses		
Suohai, Zhipu and Mei Zanying (i)	**(396,771)**	(415,360)
Others	**(1,786)**	(767)
Amounts written off	**396,771**	—
Subtotal	**(1,786)**	(416,127)
Carrying amount	**47,250**	98,564

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Note: *(Continued)*

(a) Prepayments to suppliers, net of provision *(Continued)*

(i) Suohai and Zhipu were television set suppliers of the Group. During the year ended 31 December 2017, the Group made total prepayments of RMB677,298,000 and RMB336,120,000 respectively to these two suppliers. The Group made purchases of RMB 121,389,000 and RMB44,224,000 from Suohai and Zhipu respectively, and received refunds of prepayment of RMB442,525,000 and RMB191,959,000 from Suohai and Zhipu during the same year ended 31 December 2017. The Group had gross prepayments to Suohai and Zhipu of approximately RMB225,887,000 and RMB161,476,000 as at 31 December 2017 respectively. The related accumulated impairment losses on gross prepayments to Suohai and Zhipu amounted to approximately RMB225,887,000 and RMB140,736,000 as at 31 December 2017 respectively. The carrying amounts of these prepayments to Suohai and Zhipu amounted to RMB Nil and RMB20,740,000 as at 31 December 2017 respectively.

In January 2018, management became aware that these two suppliers were in financial difficulties. The Group has therefore ceased conducting any new business with them since then. In July 2018, the Group reached an agreement with Zhipu under which Zhipu transferred a commercial property to the Group to settle part of the outstanding prepayment of approximately RMB20,740,000. In August 2018, the Group initiated legal proceedings against Suohai and Zhipu with a view to recover the outstanding prepayments. Up to the date of approval of the consolidated financial statements, the litigation is still in process. Reversal of impairment losses of approximately RMB11,252,000 in aggregate was recognised during the year ended 31 December 2018 arising from finalization of certain purchase orders/transactions made with these two suppliers in prior years. Due to the potential difficulties in enforcing any judgement against Suohai and Zhipu to recover the prepayments from these suppliers, the Group decided to set aside full impairment on the remaining outstanding prepayments as at 31 December 2018, which were then written off on the same date.

Reversal of impairment/impairment losses on prepayments to these two television suppliers was included in the line item of "Reversal of impairment losses/impairment losses on financial assets, net".

(ii) The Group had a prepayment of approximately RMB63,215,000 in traditional business segment with a large air-conditioner supplier, Mei Zanying as at 31 December 2017. In 2018, the Group received a supplier confirmation from Mei Zanying, and noted the balance acknowledged by Mei Zanying was only up to approximately RMB14,478,000. Thus, impairment loss of approximately RMB48,737,000 was made by the Group during the year ended 31 December 2017. The Group made no further prepayment for supply of goods to Mei Zanying since September 2018. During the year ended 31 December 2018, the Group recognised reversal of impairment loss of approximately RMB7,337,000 upon receipt of goods from Mei Zanying and reconciliation of the transactions and balance with it. As at 31 December 2018, the carrying amount of the prepayment to Mei Zanying (net of accumulated impairment losses of approximately RMB41,400,000) amounted to RMB Nil and was then written off on the ground that there was no realistic prospect of recovery.

Reversal of impairment/impairment loss on prepayment to the air-conditioner supplier "Mei Zanying" was included in the line item of "administrative expenses".

(b) During the year ended 31 December 2018, impairment loss of approximately RMB Nil (2017:RMB17,412,000) (Note 33) on rebate receivables from suppliers was recognised, taking into account of the business relationship, the quality and financial position of the suppliers. In the same year, impairment loss of approximately RMB122,783,000 (2017: RMB109,213,000) on rebate receivables was written off due to the fact that a subsidiary was dormant and inactive since 2018 (2017: a subsidiary was in voluntary liquidation). As at 31 December 2018, the accumulated impairment losses on rebate receivables from suppliers was approximately RMB707,562,000 (2017: RMB830,345,000).

(c) During the year ended 31 December 2017, reversal of impairment loss of RMB2,910,000 made on other receivable from a third party was recognised in profit or loss as the Group reached an agreement with the third party for settlement.

(d) During the year ended 31 December 2018, impairment losses of approximately RMB4,798,000 on other receivables were recognised, taking into account of the expected credit loss on these other receivables. As at 31 December 2018, the accumulated impairment losses on other receivables amounted to approximately RMB6,388,000 (2017: RMB1,590,000).

(e) During the year 31 December 2018, impairment losses of approximately RMB1,019,000 on prepayments to other suppliers were recognised in view of long outstanding merchandise to be supplied by these other suppliers (2017: Reversal of impairment losses on prepayments to other suppliers of approximately RMB39,976,000 as the prepayment was fully recovered in 2017). As at 31 December 2018, the accumulated impairment losses on other suppliers amounted to approximately RMB1,786,000 (2017: RMB767,000).

Reversal of impairment/impairment losses on prepayments to other suppliers, other receivables and rebate receivables were included in the line item of "administrative expenses"

The prepayments, deposits and other receivables of the Group are denominated in RMB and their carrying amounts approximate their fair values as at the end of the reporting period.

18. RESTRICTED BANK DEPOSITS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Restricted bank deposits	**39,060**	278,350

As at 31 December 2018, restricted bank deposits of approximately RMB39,060,000 (2017: RMB257,960,000) had been pledged as collateral for the Group's bank acceptance bills of approximately RMB39,050,000 (2017: RMB485,950,000) (Note 22).

As at 31 December 2018, no restricted bank deposits have been pledged as collateral for the Group's bank borrowings. As at 31 December 2017, restricted bank deposits of approximately RMB20,390,000 had been pledged as collateral for the Group's bank borrowings of US$2,600,000 (equivalent to RMB16,989,000 (Note 25).

All restricted bank deposits were denominated in RMB. As at 31 December 2018, the weighted average interest rate on restricted bank deposits was 1.55% (2017: 2.17%) per annum.

19. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash on hand		
– denominated in RMB	**136**	220
Cash at bank		
– denominated in RMB	**21,021**	55,781
– denominated in HK$	**26,679**	220
– denominated in US$	**239**	275
	47,939	56,276
	48,075	56,496

At the end of the reporting period, the effective interest rate per annum was as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**0.35%**	0.35%
HK$	**0.001%**	0.001%
US$	**0.001%**	0.001%

20. SHARE CAPITAL

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

	Par value	Number of ordinary shares	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2017	US$0.001	2,000,000,000	2,000,000	10,598
Additions	US$0.001	2,000,000,000	2,000,000	13,549
At 31 December 2017, 1 January 2018 and 31 December 2018	US$0.001	4,000,000,000	4,000,000	24,147
Issued and fully paid:				
At 1 January 2017	US$0.001	1,718,860,017	1,718,860	11,462
Issue of new shares (b)	US$0.001	339,100,000	339,100	2,277
At 31 December 2017	US$0.001	2,057,960,017	2,057,960	13,739
Issue of new shares (a)	US$0.001	480,000,000	480,000	3,027
At 31 December 2018	US$0.001	2,537,960,017	2,537,960	16,766

Notes:

(a) On 6 February 2018, an aggregate of 480,000,000 ordinary shares of the Company had been issued at the subscription price of HK$0.5 per share upon completion of subscription agreement. The net proceeds arising from the subscription amounted to approximately HK$239,200,000 (equivalent to RMB 192,914,000). The use of the net proceeds is for repayment of bank borrowings and general working capital of the Company.

(b) On 4 August 2017, an aggregate of 339,100,000 ordinary shares of the Company had been successfully issued at the price of HK$0.81 per share. The net proceeds amounted to approximately HK$274,371,000 (equivalent to RMB235,599,000). The use of the net proceeds is for general working capital and development of the existing business of the Group.

20. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(c) Share Option Schemes

The share option schemes currently applicable are as follows:

(i) Share option scheme on 14 May 2015

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

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

The significant inputs to the model are summarised as below:

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

During the year ended 31 December 2018, no share option was exercised (2017: Nil) and 48,000,000 shares were forfeited (2017: 22,500,000 shares was forfeited). As at 31 December 2018, 21,500,000 shares were outstanding and exercisable (31 December 2017: 69,500,000 shares were outstanding and exercisable). These options will be expired on 13 May 2020. The remaining contractual life is 1.36 years.

	2018 Number of options	2017 Number of options
As at 1 January	**69,500,000**	92,000,000
Granted during the year	**—**	—
Exercised during the year	**—**	—
Forfeited during the year	**(48,000,000)**	(22,500,000)
As at 31 December	**21,500,000**	69,500,000

20. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(c) Share Option Schemes *(Continued)*

(ii) Share option scheme on 22 December 2015

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

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

The significant inputs to the model are summarised as below:

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

During the year ended 31 December 2018, no share option was exercised and 113,700,000 share options were forfeited (2017: no share option was exercised and 14,600,000 shares were forfeited). As at 31 December 2018, 11,380,000 share options were outstanding and exercisable (31 December 2017: 125,080,000 share options were outstanding and exercisable). These options will be expired on 21 December 2025. The remaining contractual life is 6.9 years.

	2018 Number of options	2017 Number of options
As at 1 January	**125,080,000**	139,680,000
Granted during the year	**—**	—
Exercised during the year	**—**	—
Forfeited during the year	**(113,700,000)**	(14,600,000)
As at 31 December	**11,380,000**	125,080,000

21. RESERVES OF THE GROUP

	Share premium RMB'000 note (a)	Statutory reserves RMB'000 note (b)	Other reserves RMB'000 note (c)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017 (As originally stated)	1,380,409	28,007	82,998	(1,188,562)	302,852
Prior year adjustment	—	—	—	(32,556)	(32,556)
Balance at 1 January 2017 (As restated)	1,380,409	28,007	82,998	(1,221,118)	270,296
Loss for the year 2017	—	—	—	(715,623)	(715,623)
Other comprehensive income	—	—	—	—	—
Total comprehensive loss	—	—	—	(715,623)	(715,623)
Share premium arising on issue of ordinary shares (Note 20)	233,322	—	—	—	233,322
Transaction with non-controlling interest holders for additional interest in subsidiaries	—	—	(27,396)	—	(27,396)
Return of capital and dividend paid to non-controlling interests in liquidation of a subsidiary	—	—	(207)	—	(207)
Balance at 31 December 2017 (As restated)	1,613,731	28,007	55,395	(1,936,741)	(239,608)
Loss for the year 2018	**—**	**—**	**—**	**(160,731)**	**(160,731)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**
Total comprehensive loss	**—**	**—**	**—**	**(160,731)**	**(160,731)**
Share premium arising on issue of ordinary shares (Note 20)	**189,887**	**—**	**—**	**—**	**189,887**
Balance at 31 December 2018	**1,803,618**	**28,007**	**55,395**	**(2,097,472)**	**(210,452)**

Notes:

(a) Share premium

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

(b) Statutory reserves

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

(c) Other reserves

Other reserves mainly represents reserve arising from issuance of share option schemes in prior years and the difference between the amounts of net consideration/contribution from non-controlling interests and the carrying value of non-controlling interests acquired or disposed of.

22. TRADE AND BILLS PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables	**122,604**	197,782
Bills payable	**39,050**	485,950
	161,654	683,732

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

Ageing analysis of trade payables based on invoice date as at the end of the reporting period is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
0 - 30 days	**57,149**	133,211
31 - 90 days	**12,550**	22,259
91 - 365 days	**28,666**	38,667
1 year - 2 years	**21,874**	2,459
2 years -3 years	**2,170**	253
Over 3 years	**195**	933
	122,604	197,782

The trade and bills payables are denominated in RMB and their carrying amounts approximate their fair values as at the end of the reporting period.

As at 31 December 2018, restricted bank deposits of RMB39,060,000 (2017:RMB257,960,000) had been pledged as collateral for the Group's bank acceptance bills of approximately RMB39,050,000 (2017: RMB485,950,000).

23. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current		
Advances from third parties and related parties, interest bearing (note 1)	**340,800**	—
Interest payables (note 1)	**7,718**	—
	348,518	—
Current		
Advances from customers	**—**	70,507
Salary and welfare payables	**29,175**	30,311
Accrued expenses	**7,310**	6,335
Payables for purchase of equipment	**—**	6,794
Deposits	**2,609**	2,408
Value added tax and other tax payables	**1,430**	4,041
Interest payables	**2,205**	849
Guarantee deposit for subscription of ordinary shares of the Company (note (5))	**2,930**	2,930
Advances from third parties, interest bearing (note (2)(ii), (2)(iii) & (2)(vii))	**25,410**	114,200
Advances from equity investor of an associate and accrued penalty (note (3))	**3,900**	28,150
Advance from a former director,		
-Interest bearing (note (4))	**—**	25,000
Amount due to a shareholder (*)	**4,894**	5,755
Rental payable to a former director (**)	**2,872**	—
Consideration payable to a former non-controlling interest holder of a subsidiary	**—**	2,000
Unsecured advance from Huisheng, a joint venture	**—**	2,500
Others	**14,721**	6,865
	97,456	308,645
Total	**445,974**	308,645

* During the year ended 31 December 2017, there was an advance made from a shareholder (China Ruike Investment & Development Co. Ltd.), which is a company connected with the former director, Cao Kuanping.

The amount was unsecured, interest free and repayable on demand.

** Rental payable represents the amount payable to a former director, Mr. Cao Kuanping.

23. ACCRUALS AND OTHER PAYABLES *(Continued)*

Notes:

(1) Non-current advance from independent third parties and related parties and related Interest payables

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Independent third parties		
Individual (note 2(i)& (iii)) and corporate (note (iv))	**210,800**	—
Entities controlled by the Chairman (note (v))	**50,000**	—
Entity connected with a director of the joint venture (note (vi))	**80,000**	—
	340,800	—
Interest payables arising from the non-current advance		—
Independent third parties		—
Individual (note 2(i) & (iii) and corporate (note (iv))	**5,595**	—
Entities controlled by the Chairman (note (v))	**1,331**	—
Entities connected with a director of the joint venture (note (vi))	**792**	—
	7,718	—
Non-current	**348,518**	—

All of the non-current interest bearing advances from third parties and related parties are carried at amortised cost. None of the non-current interest bearing advances is expected to be settled within one year.

(2) Terms of current and non-current advance from independent third parties and related parties

(i) Advances from an independent individual third party of approximately RMB 152,000,000 are denominated in RMB, carry interest at a fixed rate ranging from 5% to 6.5% per annum and are repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing.

(ii) Advances from the above independent third party (individual) of approximately RMB25,410,000 are denominated in Hong Kong dollar, carry interest at a fixed rate of 5.5% per annum and are repayable together with interest payable at the date of maturity in Jun 2019, being six months from the date of the borrowing.

(iii) The Group's investment properties have been pledged to the independent third party (individual) as collaterals for the other borrowings from him. In addition, The Group's land use rights and its related buildings with the aggregate carrying amount of approximately RMB87,890,000 have also been pledged to the above individual as collaterals for the other borrowings from him.

(iv) Advance (RMB3,800,000) from an independent third party (corporate) is denominated in RMB, carries interest at a fixed rate of 5.5% per annum and is repayable together with interest payable in May 2020, being 2 years from the date of the relevant borrowing.

Advances (RMB55,000,000) from an independent third party (corporate) are denominated in RMB, carry interest at a fixed rate of 6.5% per annum and are repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing.

The above advances are unsecured.

(v) Advances from entities controlled by the Chairman (Mr. Yuan Li) of the Company are denominated in RMB, carry interest at a fixed rate ranging from 5% per annum and are repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing. The borrowings are unsecured.

The above entities are 廣東聖融金服控股有限公司 and 聖商(北京)控股集團有限公司, both of which are controlled by Mr. Yuan Li.

23. ACCRUALS AND OTHER PAYABLES *(Continued)*

Notes:

(2) Terms of current and non-current advance from independent third parties and related parties - continued

(vi) Other borrowings from an entity (新余滴行京流科技有限公司) is a company in which the director of a joint venture, 汪明英 holds 18% interest in the entity. The borrowings are denominated in RMB and carry interest at a fixed rate of 6.5% per annum. RMB50,000,000 of the other borrowings is repayable in September 2020, being 2 years from the date of the borrowing and the related accrued interest is payable on demand. RMB30,000,000 of the other borrowings is repayable together with interest payable in Jun 2020, being 2 years from the date of the borrowing. The borrowings are unsecured.

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

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

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

(3) During the year ended 31 December 2017, the Group obtained short-term advances totalling RMB100,000,000 from Jiangsu Ruihua Investment Holding Group CO., Ltd ("江蘇瑞華投資控股集團有限公司"), ("Ruihua") at 10% interest per annum for a period of one month. These advances were jointly and severally guaranteed by Mr. Cao Kuanping (Former director), Jiangsu Huiyin Lehu Commercial Chain-Stores Co., Ltd., Yangzhou Huiyin and the Company. During the year ended 31 December 2018, the Group made repayments of 25,000,000 (31 December 2017: RMB85,000,000) to settle the principal of RMB24,485,000 (31 December 2017:RMB72,200,000) together with RMB Nil (31 December 2017: RMB833,000) of interest charge and the overdue penalty charge of RMB515,000 (31 December 2017: RMB11,967,000). The outstanding balance represents the unsettled principal amount of RMB3,315,000 (31 December 2017: RMB27,800,000) and the accrued overdue penalty charge of RMB 585,000 (31 December 2017: RMB350,000) as at 31 December 2018.

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

(5) As at 31 December 2017 and 2018, guarantee deposit for subscription of ordinary shares of the Company amounting to RMB2,930,000 represented the deposit the Group received from a shareholder for subscription of the ordinary shares of the Company.

Other than those set out in the above Note 23 (2)(ii), all other accruals and other payables of the Group are mainly denominated in RMB. The carrying amounts of accruals and other payables approximate their fair values at the end of the reporting period.

24. CONTRACT LIABILITIES

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as advance from the customers. Under HKFRS 15, the amount is classified as contract liabilities. Therefore, upon adoption of HKFRS 15, the Group reclassified approximately RMB70,507,000 from "advance from the customers" as included in accruals and other payables to "contract liabilities" in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, the carrying amount of the contract liabilities was RMB39,780,000.

During the year ended 31 December 2018, decrease in contract liabilities as a result of i) recognised revenue during the year ended 31 December 2018 that was included in the contract liabilities at the beginning of the period amounted to approximately RMB61,532,000; and ii) disposal of subsidiaries (Note 32) in respect of the line item "contract liabilities" (approximately RMB1,690,000). In addition, increase in contract liabilities as a result of receiving consideration in advance from the customers during the same year amounted to approximately RMB32,495,000. The decrease in contract liabilities was also due to drop in advance from customers.

25. BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current		
Bonds payables (a)	**7,616**	7,062
Current		
Bank borrowings (b)	**38,000**	131,289
	45,616	138,351

(a) Bonds payables

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

(b) Bank borrowings

As at 31 December 2018, the Group's bank borrowings were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**38,000**	131,289

As at 31 December 2018, the Group's land use rights (Note 7) and the relevant buildings (Note 8) with the aggregate carrying amount of RMB124,525,000 have been pledged as collateral for the Group's bank borrowings of RMB38,000,000.

As at 31 December 2017, the Group's use land use rights (Note 7), the relevant buildings (Note 8) and investment properties (Note 9) with the aggregate carrying amount of RMB194,782,000 had been pledged as collateral for the Group's bank borrowings of RMB97,600,000.

As at 31 December 2017, the restricted bank deposits of RMB20,390,000 (Note 18) had been pledged as collateral for the Group's bank borrowings of US$2,600,000, equivalent to RMB16,989,000.

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

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

25. BORROWINGS *(Continued)*

(b) Bank borrowings *(Continued)*

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
6 months or less	**—**	96,789
6 - 12 months	**38,000**	34,500
	38,000	131,289

The carrying amount of non-current borrowings and current bank borrowings approximates their fair value at the end of reporting period.

The carrying amounts of the Group's bank borrowings at the end of reporting period are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current		
- RMB	**38,000**	114,300
- US dollar	**—**	16,989
	38,000	131,289

As at 31 December 2018, the Group's bank borrowings with the aggregate carrying amount of RMB Nil (31 December 2017: RMB16,989,000) are of floating rates and bank borrowings with the aggregate carrying amount of RMB 38,000,000 (31 December 2017: RMB114,300,000) are of fixed rates.

The weighted average effective interest rate of the Group's bank borrowings at the end of the reporting period are as follows:

	As at 31 December	
	2018	2017
Current	**5.07%**	4.88%

26. DEFERRED GOVERNMENT GRANTS

The Group's storage and logistics development project had been terminated during the year ended 31 December 2017 after its related land use rights were sold (Note 7(b)). As the Group had no unfulfilled obligations relating to the storage and logistics development project, the relevant deferred government grants were fully recognised as other income during the year ended 31 December 2017.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Derivative in respect of the right to request the Group to purchase 51% equity interest in Ruihu exercisable by an equity investor RMB'000
As at 1 January 2017 (as restated)	32,556
Change in fair value credit to profit or loss	(4,981)
As at 31 December 2017 and as at 1 January 2018 (as restated)	27,575
Change in fair value credit to profit or loss	(1,397)
As at 31 December 2018	26,178

In late December 2016, the Group entered into a supplementary agreement with an equity investor, Ruihua, in respect of an equity investment in Nanjing Ruihu Electronic Commercial Technology Co., Ltd. ("Ruihu"). The former Chairman, Mr. Cao Kuanping was also a party to the supplementary agreement. Pursuant to the supplementary agreement, Ruihua is given a right to request the Group to purchase its 51% equity interest in Ruihu in any of the years from 2017 to 2020 at a purchase price equivalent to the investment cost made by Ruihua plus 8% per annum should Ruihu could not meet the following circumstances in any of these years from 2017 to 2019 as set out in the supplementary agreement:

i) The target profit as defined in the supplementary agreement for the years 2017, 2018 and 2019 to be achieved as RMB1.23 Billion, RMB2.135 Billion and RMB5 Billion respectively;

ii) The unmodified audited report on Ruihu in respect of each reporting period to be submitted to Ruihua before 31 May of each following reporting period;

iii) Any of the Group's business activities which were in competition with Ruihu's business activities to be stopped before 31 December 2017; and

iv) Any other conditions as set out in the supplementary agreements

27. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

In view of the misstatement by omission of the financial impact arising from the derivative regarding the right given to Ruihua to request the Group to purchase its equity interest in Ruihu in prior years' consolidated financial statements, the Group's management has recognised such right given to Ruihua as derivative financial instruments retrospectively. The derivative financial instrument was initially recognised at fair value with subsequent changes in fair value recognised in profit or loss. During the year ended 31 December 2018, the Group remeasured the fair value with a gain of approximately RMB1,397,000 (2017: a gain of approximately RMB4,981,000(Restated)) recognised in profit or loss.

Details of the inputs and assumptions adopted in the valuation are described in Note 4 to the consolidated financial statements.

28. OTHER LIABILITIES

	RMB'000
As at 31 December 2018 and 2017	53,560

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

29. PARTICULARS OF SUBSIDIARIES

(a) List of subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Company name	Place and date of incorporation	Legal Status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2018	Principal activities	Note
Directly owned							
China Yinrui (HK) Investment Holding Company Limited	Hong Kong 14 March 2008	Limited liability company	HK$1	HK$1	100%	Investment	
Fuhua Investment Holding Co., Ltd	BVI 28 August 2004	Limited liability company	US$1	US$1	100%	Investment	
Indirectly owned							
Yangzhou Huiyin 揚州滙銀科技集團有公司 (formerly known as "揚州滙銀家電(集團)有限公司")	Yangzhou Jiangsu, PRC 27 May 2002	Foreign investment enterprise	US$200,000,000	US$196,427,968	100%	Bulk distribution sales and provision of after-sales services of household appliances	
Jiangsu Huiyin Lehu Commercial Chain-Stores Co., Ltd (formerly known as "Jiangsu Huiyin Electronics Chain-Stores Co., Ltd.") 江蘇匯銀樂虎商業連有限公司 (formerly known as "江蘇滙銀器連鎖有限公司")	Yangzhou Jiangsu, PRC 15 May 2006	Domestic enterprise	RMB62,500,000	RMB 62,500,000	100%	Retail sales and provision of after-sales services of household appliances	

29. PARTICULARS OF SUBSIDIARIES *(continued)*

(a) List of subsidiaries *(continued)*

Company name	Place and date of incorporation	Legal Status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2018	Principal activities	Note
Indirectly owned *(continued)*							
Yangzhou Hengjin Air-conditioner Sales Co., Ltd.揚州恒金空調銷售有限公司	Yangzhou Jiangsu, PRC 27 August 2004	Domestic enterprise	RMB50,000,000	RMB 50,000,000	100%	Bulk distribution sales of Daikin air conditioners	
Yangzhou Huide Electronics Distribution Co., Ltd.揚州滙德電器營銷有限公司	Yangzhou Jiangsu, PRC 23 October 2006	Domestic enterprise	RMB50,000,000	RMB 50,000,000	100%	Bulk distribution sales of Midea air-conditioners	
Yangzhou Huiyin Logistic Co., Ltd 揚州滙銀物流有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	US$5,000,000	US$5,000,000	100%	Bulk distribution sales of Midea air-conditioners	
Yangzhou Huiyin Household Appliances Sales Co., Ltd揚州滙銀電器銷售有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	US$4,100,000	US$4,100,000	100%	Retail sales of household appliances	
Anhui Four Seas 安徽四海匯銀家電銷售有限公司	Huainan Anhui, PRC 16 September 2010	Domestic enterprise	RMB50,000,000	RMB50,000,000	65%	Retail sales of household appliances	
Wuxi Huiyin Household Appliances Sales Co., Ltd.無錫匯銀家電銷售有限公司	Wuxi Jiangsu, PRC 9 December 2010	Domestic enterprise	RMB1,800,000	RMB1,800,000	100%	Bulk distribution sales of household appliances	
Nanjing Chaoming 南京潮明科技發展有限公司	Nanjing Jiangsu, PRC 20 June 2002	Domestic enterprise	RMB10,000,000	RMB10,000,000	100%	Retail and bulk distribution sales of household appliances	
Jiangsu Huiyin Electronics (Anhui) Co., Ltd. 江蘇匯銀電器(安徽)有限公司	Hefei Anhui, PRC 31 March 2011	Domestic enterprise	RMB2,000,000	RMB2,000,000	100%	Bulk distribution sales of household appliances	
Shanghai Jingjiandongkang Trading Co., Ltd. 上海靜健動康貿易有限公司	Shanghai, PRC 24 October 2012	Domestic enterprise	RMB2,000,000	RMB2,000,000	100%	Trading of food and other merchandise	
Yangzhou Shengshi Xinxing Electronics Sales Co., Ltd.揚州盛世欣興電器銷售有限公司	Yangzhou, Jiangsu, PRC 21 August 2013	Domestic enterprise	RMB10,000,000	RMB10,000,000	100%	In active since 2018	
Shanghai Guanghan Trading Co.,Ltd. 上海廣邗貿易有限公司	Shanghai, PRC 12 February 2014	Foreign Investment Enterprise	RMB500,000	–	100%	Bulk distribution sales of general merchandise	
Jiangsu Jingjian Dongkang Trading Co.,Ltd. 江蘇靜健動康貿易有限公司	Yangzhou, Jiangsu, PRC 11 March, 2014	Domestic Enterprise	RMB10,000,000	RMB360,000	100%	Bulk distribution sales of foods	
Jiangsu Kuanrui Trade Logistics Development Co.,Ltd.江蘇寬瑞物流貿易發展有限公司	Yangzhou, Jiangsu, PRC 30 January 2008	Foreign Investment Enterprise	EUR2,000,000	EUR2,000,000	100%	Logistic and warehouse services	

29. PARTICULARS OF SUBSIDIARIES *(continued)*

(a) List of subsidiaries *(continued)*

Company name	Place and date of incorporation	Legal Status	Authorised or registered capital	Paid-up capital	Effective interest held As at 31 December 2018	Principal activities	Note
Indirectly owned *(continued)*							
Yangzhou Huiyin Warehouse Management Co., Ltd揚州滙銀倉儲管理有限公司	Yangzhou Jiangsu, PRC 11 July 2017	Foreign Investment Enterprise	HKD78,500,000	HKD78,500,000	100%	Logistic and warehouse services	
Jiangsu Huiyin Electronics Commerce Co., Ltd.江蘇匯銀電子商務有限公司	Yangzhou Jiangsu, PRC 13 June 2012	Domestic enterprise	RMB17,333,300	RMB11,733,333	75%	Sales of household appliances and other merchandise	(ii)
Yangzhou Yinlinghui Recreation Center for Aged揚州銀齡滙老年服务中心	Yangzhou Jiangsu, PRC 27 April 2015	Domestic Enterprise	RMB100,000	RMB100,000	75%	Community Services	(ii)
Ningbo Bonded area Lehu Electronic Commerce Co., Ltd 寧波保税區樂虎電子商務有限公司	Ningbo Zhejiang, PRC 30 October 2015	Domestic Enterprise	RMB10,000,000	RMB37,223	75%	Retail sales of import merchandise	(ii)
Nanjing Activity Center for Aged 南京老年活動中心	Nanjing Jiangsu, PRC 1 February 2017	Domestic Enterprise	RMB50,000	RMB50,000	75%	Community Services	(ii)
Shanghai Haihu Electronic Commerce Co., Ltd 上海海虎電子商務有限公司	Shanghai, PRC 17 November 2017	Domestic Enterprise	RMB50,000,000	–	80%	Retail sales of import merchandise	
Nanjing Huiyin Lehu Logistic Management Co., Ltd南京滙銀樂虎供應管理有限公司	Nanjing Jiangsu, PRC 12 July 2018	Domestic Enterprise	RMB30,000,000	–	82%	Logistic and Warehouse Service	
Nanjing Haihuitong Supply Chain Services Co., Ltd.南京海滙通供應鏈服務有限公司	Nanjing Jiangsu, PRC 12 December 2017	Domestic enterprise	RMB300,000,000	–	15%	Logistic and Warehouse Service	(i)

Notes:

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

(ii) Although Yangzhou Maikensu has been registered as 15% shareholder of Jiangsu Electronics Commerce, it has not contributed its proportional share of registered capital. The directors of the Company is of the view that the net assets of Jiangsu Electronics Commerce and its subsidiaries at the end of the reporting period and the financial performance for the year then ended would not be shared with Yangzhou Maikensu, and accordingly, no non-controlling interest at the end of the reporting period and loss attributable to non-controlling interest were recorded for Yangzhou Maikensu, respectively.

29. PARTICULARS OF SUBSIDIARIES *(continued)*

(b) Non-controlling interests

The Group held 65% equity interest in Anhui Four Seas, and set out below is the summarized financial information for Anhui Four Seas of which the non-controlling interests ("NCI") are material to the Group. The amounts disclosed for Anhui Four Seas are before inter-company elimination.

	Anhui Four Seas As at 31 December	
	2018 RMB'000	2017 RMB'000
NCI percentage	**35%**	35%
Current assets	**127,027**	128,304
Current liabilities	**58,260**	64,728
Current net assets	**68,767**	63,576
Non-current assets	**808**	724
Non-current liabilities	**—**	—
Non-current net assets	**808**	724
Net assets	**69,575**	64,300
Accumulated NCI	**24,351**	22,505

	Anhui Four Seas For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Revenue	**234,662**	210,215
Profit for the year	**5,273**	1,873
Other comprehensive income	**—**	—
Total comprehensive income	**5,273**	1,873
Profit allocated to NCI	**1,846**	656
Dividends paid to NCI	**—**	—

29. PARTICULARS OF SUBSIDIARIES *(continued)*

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

	Anhui Four Seas Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cash inflows from/(outflows in) operating activities	**2,837**	(4,470)
Cash inflows from investing activities	**197**	443
Cash inflows from/(outflows in) financing activities	**—**	—
Net increase/(decrease) in cash and cash equivalents	**3,034**	(4,027)

(c) Transactions with non-controlling interests

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

(ii) In May 2017, Changzhou Keyi was voluntarily liquidated. In connection with this, a total amount of RMB2,295,000 which comprises a return of 10% paid-up capital and a cash dividend of RMB1,257,000 was paid to the non-controlling interest holder. The Group derecognised the non-controlling interest of RMB2,088,000, resulting in a decrease of RMB207,000 in other reserve of the Group.

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

30. OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Income from suppliers on promotion activities	**1,390**	10,910
Rental income from investment properties	**5,322**	3,771
Membership fee income	**5,740**	11,481
Government subsidies	**3,071**	9,939
	15,523	36,101

Note:

All of the government subsidies for the years ended 31 December 2018 and 2017 represent amounts received during the respective years related to the Group's operating activities and other activities and are not subject to any conditions nor intended to compensate future costs.

Direct outgoings in relation to rental receivable from investment properties were RMB Nil (2017: RMB Nil).

31. OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Losses on disposal of property, plant and equipment, net	**(757)**	(49)
Losses on disposal of intangible assets, net	**—**	(584)
Losses on disposal of land use rights	**—**	(186)
Gains on disposal of subsidiaries (Note:32(a)&(b))	**8,054**	—
Gain on fair value change of derivative financial Instruments (Note 27)	**1,397**	4,981
Penalty charge for late repayment of advance from equity investor of an associate	**(752)**	(12,315)
	7,942	(8,153)

32. DISPOSAL OF SUBSIDIARIES

(a) On 10 December 2018, the Group entered into a sale and purchase agreement with a purchaser pursuant to which the Group agreed to sell all of the Group's 75% equity interest of a subsidiary, Nanjing Lehu Electronic Commerce Co., Ltd ("Nanjing Lehu"), to an independent third party at a consideration of RMB1. The disposal of Nanjing Lehu was completed on 10 December 2018. The net assets of Nanjing Lehu at the disposal date were as follows:

	2018 RMB'000
Total consideration received	—
Analysis of assets and liabilities over which control was lost	
Property, plant and equipment	3,987
Trade and bills receivables	907
Cash and cash equivalents	1,341
Prepayments, deposits and other receivables	8,753
Trade and bills payables	(18,310)
Accruals and other payables	(2,393)
Contract liabilities	(1,592)
Non-controlling interests	(888)
Net liabilities disposed of	(8,195)
Gain on disposal of subsidiaries	
Total cash consideration	—
Net liabilities disposed of	(8,195)
Gain on disposal	(8,195)
Net cash outflow arising from disposal	
Consideration received in cash and cash equivalents	—
Less: Cash and cash equivalent disposed of	(1,341)
Outflow of cash and cash equivalents in respect of disposal of the subsidiaries	(1,341)

32. DISPOSAL OF SUBSIDIARIES *(continued)*

(b) On 8 April 2018, the Group entered into a sale and purchase agreement with a purchaser pursuant to which the Group agreed to sell all of the Group's 100% equity interest of a subsidiary, 揚州天下揚商科技有限公司, to an independent third party at a consideration of RMB9. The disposal of 揚州天下揚商科技有限公司 was completed on 8 April 2018. The net assets of 揚州天下揚商科技有限公司 at the disposal date were as follows:

	2018 RMB'000
Total consideration received	—
Analysis of assets and liabilities over which control was lost	
Inventories	1,667
Cash and cash equivalents	1,464
Prepayments, deposits and other receivables	246
Tax refundable	147
Trade and bills payables	(1,275)
Accruals and other payables	(2,010)
Contract liabilities	(98)
Net assets disposed of	141
Loss on disposal of a subsidiary	
Total cash consideration	—
Net assets disposed of	141
Loss on disposal	141
Net cash outflow arising from disposal	
Consideration received in cash and cash equivalents	—
Less: Cash and cash equivalent disposed of	(1,464)
Outflow of cash and cash equivalents in respect of disposal of the subsidiary	(1,464)

33. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of merchandise before deducting supplier rebates (note (a))	**1,080,360**	1,405,709
Supplier rebates (note (a)	**(168,338)**	(112,032)
Taxes and levies on main operations (note (a)	**1,318**	1,991
Employee benefit expenses (excluding share option scheme expenses) (Note 34)	**88,211**	90,574
Operating lease expenses in respect of buildings and warehouses	**31,527**	37,373
Amortisation of land use rights (Note 7)	**797**	1,199
Depreciation of property, plant and equipment (Note 8)	**10,443**	20,556
Depreciation of investment properties (Note 9)	**169**	170
Amortisation of intangible assets (Note 10)	**865**	2,460
(Reversal of write-down)/ write-down of inventories for obsolescence (Note 15) (note (a))	**(15,737)**	20,108
Impairment loss on trade receivables (Note 16)	**1,154**	11,000
Impairment loss/ (reversal of impairment loss) on other receivables (Note 17)	**4,798**	(2,910)
Impairment loss on property, plant and equipments (Note 8)	**1,500**	28,361
Impairment loss on land use rights (Note 7)	**—**	11,403
Impairment loss on intangible assets (Note 10)	**—**	5,255
(Reversal of impairment loss)/ impairment loss on prepayments to Suohai, Zhipu and Mei Zanying (Note 17)	**(18,589)**	415,360
Impairment loss/ (Reversal of impairment loss) on prepayments to other suppliers (Note 17)	**1,019**	(39,976)
Impairment loss on rebate receivable from suppliers (Note 17)	**—**	17,412
Impairment loss on interest in an associate	**—**	812
Auditor's remuneration		
– Audit services		
Current year	**4,000**	9,329
Prior year	**5,034**	—

Note:

(a) Included in cost of sales

34. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Salaries and other allowances	**76,095**	75,073
Social security costs	**9,850**	14,841
Other benefits	**2,266**	660
	88,211	90,574

(a) The employees of the subsidiaries of the Group in the PRC participated in defined contribution retirement benefit plans organised by the relevant local governments. For the year ended 31 December 2018, these subsidiaries were required to make monthly defined contributions to these plans at rates ranging from 29.0% to 39.0% of their total salaries subject to certain ceilings (2017: 29.0% to 39.0%).

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one (2017: two) director whose emoluments were reflected in the analysis presented in Note 35. The emoluments paid/payable to the remaining four (2017: three) individuals were as follows:

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Salaries and other allowances (note)	**2,568**	2,243
Bonuses	**—**	—
Share Option Scheme expenses	**—**	30
Social security costs	**99**	—
	2,667	2,273

The emoluments of the remaining four (2017: three) highest paid individuals of the Group fall within the following bands:

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Emoluments bands		
– Nil to HK$1,000,000	**3**	2
– HK$1,000,001 to HK$1,500,000	**1**	1
	4	3

Note: Mr. Cao Kuanping (the former chairman of the Company) resigned as Chief Executive Officer of the Company on 15 June 2018 and acts as Honorary Adviser thereafter. His emoluments (including benefits) to act as honorary Adviser amounted to approximately RMB 1,007,000 for the year ended 31 December 2018.

35. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE AND THE COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION:

(a) Directors' and chief executive's emoluments

For the years ended 31 December 2018 and 2017, the remuneration of directors of the Company paid/payable by the Group were as follows:

	For the year ended 31 December 2018					
Name of directors	**Salaries, allowances and benefit in kind RMB'000**	**Discretionary bonuses RMB'000**	**Social security costs RMB'000**	**Share Option Scheme expense RMB'000**	**Directors' fees RMB'000**	**Total RMB'000**
Chairman and executive director						
– Mr. Yuan Li (note (a))	—	—	—	—	—	—
Other executive directors	—	—	—	—	—	—
– Mr. Wang Zhijin (note (b))	—	—	—	—	—	—
– Mr. Mao Shanxin (note (c))	—	—	—	—	—	—
– Mr. Mo Chihe (note (d))	—	—	—	—	—	—
– Mr. Lu Chaolin (note (e))	—	—	—	—	—	—
– Mr. Xu Xinying (note (f))	—	—	—	—	—	—
– Ms. Liu Simei (note (g))	300	—	—	—	—	300
– Mr. Cao Kuanping (note (h))	837	—	15	—	—	852
– Mr. Xin Kexia (note (q))	396	—	—	—	—	396
Independent non-executive Directors	—					
– Mr. Tam Chun Chung (p)	311	—	—	—	—	311
– Mr. Li Hengjian (note (j))	136	—	—	—	—	136
– Mr. Lo Kwong Shun (note (k))	—	—	—	—	—	—
– Mr. Zhao Jinyong (note (l))	256	—	—	—	—	256
– Mr. Chen Rui (note (r))	112	—	—	—	—	112
Non-executive directors						
– Mr. Song Liwu (note (m))	—	—	—	—	—	—
– Mr. Wang Cai (note (n))	—	—	—	—	—	—
– Mr. Sheng Xingpeng (note (o))	—	—	—	—	—	—
	2,348	—	15	—	—	2,363

35. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE AND THE COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION *(continued)*

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

	For the year ended 31 December 2017					
Name of directors	Salaries, Allowances and benefit in kind RMB'000	Discretionary Bonuses RMB'000	Social security costs RMB'000	Share Option Scheme expense RMB'000	Directors' fees RMB'000	Total RMB'000
Chairman and executive director						
– Mr. Yuan Li (note (a))	—	—	—	—	—	—
Other executive directors						
– Mr. Wang Zhijin (note (b))	827	—	103	—	—	930
– Mr. Mao Shanxin (note (c))	234	—	37	—	—	271
– Mr. Mo Chihe (note (d))	283	—	37	—	—	320
– Mr. Lu Chaolin (note (e))	230	—	24	—	—	254
– Mr. Xu Xinying (note (f))	—	—	—	—	—	—
– Ms. Liu Simei (note (g))	300	—	—	—	—	300
– Mr. Cao Kuanping (note (h))	1827	—	37	—	—	1,864
Independent non-executive Directors						
– Mr. Tam Chun Chung (note (p))	87	—	—	—	—	87
– Mr. Zhou Shui Wen (note (i))	87	—	—	—	—	87
– Mr. Lo Kwong Shun Wilson (note (k))	29			—	—	29
– Mr. Li Hengjian (note (j))	29	—	—	—	—	29
– Mr. Lo Kwong Shun (note (k))						
– Mr. Zhao Jinyong (note (l))						
Non-executive directors						
– Mr. Song Liwu (note (m))	—	—	—	—	—	—
– Mr. Wang Cai (note (n))	—	—	—	—	—	—
– Mr. Sheng Xingpeng (note (o))	—	—	—	—	—	—
	3,933	—	238	—	—	4,171

35. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383(1) OF THE HONG KONG COMPANIES ORDINANCE AND PART 2 OF THE COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION *(continued)*

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

Notes:

(a) Mr. Yuan Li was appointed as executive director of Group on 26 August 2017 and was appointed as Chairman of the Board on 29 December 2017.

(b) Mr. Wang Zhijin resigned from the board of directors on 9 December 2017.

(c) Mr. Mao Shanxin resigned from the board of directors on 1 June 2017.

(d) Mr. Mo Chihe resigned from the board of directors on 29 December 2017.

(e) Mr. Lu Chaolin resigned from the board of directors on 26 August 2017.

(f) Mr. Xu Xinying was appointed as non-executive director on 26 August 2017, and then re-designated as executive director on 29 December 2017.

(g) Ms. Liu Simei was appointed as executive director on 29 December 2017 and resigned as the Executive Director of the Company on 27 April 2018. Ms. Liu was re-appointed as Executive Director on 3 May 2018.

(h) Mr. Cao Kuanping resigned as Chairman of the board of directors on 29 December 2017, resigned as Chief Executive Officer of the Company on 15 June 2018, and resigned as the Executive director of the Company on 9 September 2018.

(i) Mr. Zhou Shuiwen resigned as independent non-executive director on 29 December 2017.

(j) Mr. Li Hengjian was appointed as independent non-executive director on 26 August 2017 and resigned on 30 June 2018.

(k) Mr. Lo Kwong Shun resigned as independent non-executive director on 26 August 2017.

(l) Mr. Zhao Jinyong was appointed as an independent non-executive director on 29 December 2017.

(m) Mr. Song Liwu was appointed as a non-executive director on 1 June 2017 and resigned on 26 August 2017.

(n) Mr. Wang Cai was appointed as a non-executive director on 1 June 2017.

(o) Mr. Sheng Xingpeng was appointed as a non-executive director on 29 December 2017 and resigned on 15 June 2018.

(p) Mr. Tam Chun Chung was resigned as independent non-executive director of the company on 30 January 2019.

(q) Mr. Xin Kexia was appointed on 15 June 2018 as chief Executive Officer and Executive Director.

(r) Mr. Chen Rui was appointed on 4 July 2018 as independent non-executive director.

During the years ended 31 December 2018 and 2017, none of the directors of the Company (i) received any emolument from the Group as an inducement to join or upon joining the Group; or (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

35. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383(1) OF THE HONG KONG COMPANIES ORDINANCE AND PART 2 OF THE COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION *(continued)*

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2017: Nil).

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

During the year ended 31 December 2018, the Group did not pay consideration to any third parties for making available directors' services (2017: Nil).

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

Except for the arrangements disclosed in Note 29(a)(i), as at 31 December 2017 and 2018, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and connected entities with directors.

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

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017:Nil).

36. FINANCE COSTS – NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance income		
– Interest income on bank deposits	**2,270**	6,061
	2,270	6,061
Finance costs		
– Interest expenses on discounting of bills Receivable	**(1,351)**	(13,253)
– Interest expenses on bank borrowings	**(6,050)**	(15,831)
– Interest expenses on advances from third parties and related parties (Note 23)	**(12,587)**	(2,624)
– Interest expenses on bonds payables	**(740)**	(687)
– Net foreign exchange losses on cash and cash equivalents borrowings and bonds payable	**(3,207)**	(2,540)
	(23,935)	(34,935)
Net finance costs – net	**(21,665)**	(28,874)

Note a:

	2018	2017
	RMB'000	RMB'000
Interest expenses on advances from Independent third parties	**8,357**	2,618
Interest expenses on advances from former director, Mr. Cao Kuanping	**287**	6
Entities controlled by the Chairman (Note 23)	**1,483**	—
Entities connected with a director of the joint venture (Note 23)	**2,460**	—
Interest expenses on advances from third parties and related parties	**12,587**	2,624

37. INCOME TAX CREDIT/(EXPENSE)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
PRC enterprise and withholding income taxes	**—**	—
– Current income tax – PRC income tax		
Provision for the year	**(289)**	(725)
Overprovision in prior year	**463**	9,090
	174	8,365
– Deferred tax		
Origination and reversal of temporary differences	**—**	(11,275)
	—	(11,275)
	174	(2,910)

Note:

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Loss before income tax	**(165,986)**	(728,281)
Tax credit calculated at domestic tax rates applicable to losses in the respective regions	**(41,497)**	(182,070)
Tax effects of :		
(Income not taxable)/ expenses not deductible for tax purpose	**(12,521)**	7,426
Unused tax losses not recognised	**54,307**	62,866
Deductible temporary differences for which no deferred tax asset was recognised	**—**	116,028
Utilisation of previously unrecognised tax losses	**—**	(1,340)
Over-provision in respect of prior years	**(463)**	—
Income tax (credit)/ expenses	**(174)**	2,910

(a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the year (2017: Nil).

(b) PRC enterprise income tax

Under the Corporate Income Tax Law of the PRC, the enterprise income tax rate applicable to the subsidiaries located in mainland China is 25% (2017: 25%)..

38. LOSS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Loss attributable to equity holders of the Company (RMB'000)	**(160,731)**	(715,623)
Weighted average number of ordinary shares in issue (thousand)	**2,489,302**	1,859,210
Basic loss per share (RMB cents)	**(6.46)**	(38.49)

(b) Diluted

The computation of diluted loss per share for the year ended 31 December 2018 and 2017 did not assume the exercise of share options and settlement in ordinary shares for the other liabilities arising from the contingent consideration arrangements in prior years as their assumed exercise would decrease the loss per share for both of the years 2018 and 2017.

39. DIVIDENDS

No interim dividend was declared during the year (2017: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

40. CASH FLOW INFORMATION

(a) Cash generated used in operations

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Loss before income tax	**(165,986)**	(728,281)
Adjustments for:		
– Net foreign exchange gains on cash and cash equivalents and bank borrowings	**(557)**	(2,655)
– Net foreign exchange losses on monetary receivables and payables	**3,766**	5,196
– Amortisation of land use rights	**797**	1,199
– Depreciation of property, plant and equipment	**10,443**	20,556
– Depreciation of investment properties	**169**	170
– Amortisation of intangible assets	**865**	2,460
– Impairment loss on property, plant and equipment	**1,500**	28,361
– Impairment loss on land use rights	**—**	11,403
– Gain on fair value change of derivative financial Instrument	**(1,397)**	(4,981)
– Losses on disposal of property, plant and equipment	**757**	49
– Losses on disposals of intangible assets	**—**	584
– Loss on disposal of land use rights	**—**	186
– Finance income	**(2,270)**	(6,061)
– Accrued default penalty on advance from equity investor of an associate	**585**	350
– Interest expenses and borrowing costs	**20,728**	32,395
– Gains on disposal of subsidiaries	**(8,054)**	—
– Share of loss of a joint venture	**—**	27,500
– Share of loss of an associate	**—**	122
– Amortisation of deferred government grants	**—**	(2,701)
– (Reversal of write-down)/ write-down of obsolescence of inventories	**(15,737)**	20,108
– Impairment losses on trade receivables	**1,154**	11,000
– Accrual/(reversal) of provision for impairment of other receivables	**4,798**	(2,910)
– Impairment loss on intangible assets	**—**	5,255
– Impairment losses on interest in an associate	**—**	812
– (Reversal of impairment)/ impairment losses on Suohai, Zhipu and Mei Zanying	**(18,589)**	415,360
– Impairment losses/ (reversal of impairment) on prepayment to other suppliers	**1,019**	(39,976)
– Impairment on rebate receivables	**—**	17,412
Operating loss before working capital changes	**(166,009)**	(187,087)

40. CASH FLOW INFORMATION *(continued)*

(a) Cash generated used in operations *(continued)*

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Changes in working capital:		
– Decrease/ (increase) in inventories	**114,516**	(49,758)
– Decrease in trade and bills receivables	**13,791**	17,682
– Decrease/ (increase) in prepayments, deposits and other receivables	**42,782**	(70,531)
– Decrease in restricted bank deposits pledged for bank acceptance bills	**218,900**	272,039
– Decrease in trade and bills payables	**(502,493)**	(167,120)
– Increase/ (decrease) in accruals and other payables	**9,195**	(11,081)
– Decrease in contract liabilities	**(29,036)**	—
Cash used in operations	**(298,354)**	(195,856)

(b) Non-cash investing and financing activities

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
		(Restated)
Addition of land use rights and building by way of transfer from a supplier in settlement of prepayments to it	**(20,740)**	—
Disposal of land use rights by receivable offsetting against an advance from a third party	**—**	5,329
Receivable offsetting against an advance from a third party	**—**	2,910
	(20,740)	8,239

40. CASH FLOW INFORMATION *(continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were or future cash flows will be, classified in the Group's statement of cash flow as cash flows from financing activities.

	Restricted bank deposits pledged for bank borrowings RMB'000 (Note 18)	Bank Borrowings RMB'000 (Note 25)	Bonds Payables RMB'000 (Note 25)	Advances from third parties and related parties RMB'000 (Note 23)	Advance from former Director RMB'000 (Note 23)	Advance from equity investor of an associate RMB'000 (Note 23)	Other payable arising from financing activities RMB'000	Total RMB'000
At 1 January 2017	116,713	(305,084)	(7,358)	(89,200)	–	–	(80,258)	(365,187)
Changes from financing cash flows:								
Guarantee deposits for subscription of ordinary shares of the Company	–	–	–	–	–	–	(2,930)	(2,930)
Advance from former director	–	–	–	–	(25,000)	–	–	(25,000)
Release of bank deposits pledged for bank Borrowings	(96,323)	–	–	–	–	–	–	(96,323)
Proceeds from bank borrowings	–	(182,600)	–	–	–	–	–	(182,600)
Repayment of bank borrowings	–	353,591	–	–	–	–	–	353,591
Proceeds from third parties	–	–	–	(115,600)	–	–	–	(115,600)
Repayment from third parties	–	–	–	82,361	–	–	–	82,361
Repayment of deposits received from subscription of ordinary shares of the Company	–	–	–	–	–	–	80,258	80,258
Advance from equity investor of an associate	–	–	–	–	–	(100,000)	–	(100,000)
Repayment to equity investor of an associate	–	–	–	–	–	72,200	–	72,200
Total changes from financing cash flows	(96,323)	170,991	–	(33,239)	(25,000)	(27,800)	77,328	65,957
Exchange adjustments	–	2,804	482	–	–	–	–	3,286
Other non-cash movements-								
Accrued interest element	–	–	(186)	–	–	–	–	(186)
Consideration payable to a former Non-controlling interest holder of a subsidiary (Note 29(c))	–	–	–	–	–	–	(2,000)	(2,000)
Netting off receivable due from the same party	–	–	–	8,239	–	–	–	8,239
At 31 December 2017	20,390	(131,289)	(7,062)	(114,200)	(25,000)	(27,800)	(4,930)	(289,891)
At 1 January 2018	**20,390**	**(131,289)**	**(7,062)**	**(114,200)**	**(25,000)**	**(27,800)**	**(4,930)**	**(289,891)**
Changes from financing cash flows								
Release of bank deposits pledged for bank Borrowings	**(20,390)**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,390)**
Proceeds from bank borrowings	**–**	**(38,000)**	**–**	**–**	**–**	**–**	**–**	**(38,000)**
Repayment of bank borrowings	**–**	**131,289**	**–**	**–**	**–**	**–**	**–**	**131,289**
Repayment to equity investor of an associate	**–**	**–**	**–**	**–**	**–**	**24,485**	**–**	**24,485**
Repayment of advance from third and related parties	**–**	**–**	**–**	**150,400**	**25,000**	**–**	**–**	**175,400**
Advance from third parties and related parties	**–**	**–**	**–**	**(402,410)**	**–**	**–**	**–**	**(402,410)**
Consideration paid to a former non-controlling interest holder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**2,000**	**2,000**
Total changes from financing cash flows	**(20,390)**	**93,289**	**–**	**(252,010)**	**25,000**	**24,485**	**2,000**	**(127,626)**
Exchange adjustments	**–**	**–**	**(348)**	**–**	**–**	**–**	**–**	**(348)**
Other non-cash movements-accrued interest element	**–**	**–**	**(206)**	**–**	**–**	**–**	**–**	**(206)**
At 31 December 2018	**–**	**(38,000)**	**(7,616)**	**(366,210)**	**–**	**(3,315)**	**(2,930)**	**(418,071)**

41. COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office premises and stores under non-cancellable operating lease agreements. At 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Not later than 1 year	**30,764**	47,582
Later than 1 year and not later than 5 years	**70,680**	182,618
Later than 5 years	**14,636**	79,215
	116,080	309,415

The leases typically run for an initial period of 1 to 10 years, with certain leases having an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(b) Capital commitments

As at 31 December 2018 and 2017, capital commitments in respect of the Group's investment in an associate are as follows:

	31/12/2018	31/12/2017
	RMB'000	RMB'000
		(Restated)
(i)		
Capital commitments in respect of its equity investment in Nanjing Ruihu Electronic Commercial Technology Co., Ltd. (Note a)	**98,000**	98,000
(ii)		
Capital commitments in respect of purchase of 10% equity interest in Jiangsu Huiyin Electronic Commence Co. Ltd. from a non-controlling interest shareholder, 江蘇瑞華投資合伙企業(有限合伙) (Note b)	**75,750**	75,750
	173,750	173,750

41. COMMITMENTS *(continued)*

(b) Capital commitments *(continued)*

Note a:
On 5 December 2016, Yangzhou Huiyin together with a third-party company set up Nanjing Ruihu Electronic Commercial Technology Co., Ltd. (南京瑞虎電子商務科技有限公司)("Ruihu") in Nanjing, Jiangsu Province, the PRC. Ruihu has registered capital of RMB200,000,000 of which Yangzhou Huiyin has agreed to subscribe for 49% of the equity interest.

The Group has not contributed any capital into Ruihu since its establishment. Ruihu also does not have any business activity since its incorporation.

Pursuant to the initial strategy agreement made between Ruihua (an independent equity investor) and the Group before establishment of Ruihu, the Group had agreed with Ruihua to make sure that the investment was safe and Ruihua could receive at least not less than the investment cost in respect of its return on investment.

In late December 2016, the Group entered into a supplementary agreement with an equity investor of Ruihu, Ruihua. The former director, Mr. Cao Kuanping, was also a party to the supplementary agreement. Pursuant to the supplementary agreement, Ruihua has a right to request the Group to purchase its 51% equity interest in any of the years from 2017 to 2020 at a purchase price equivalent to the investment cost made by Ruihua plus 8% per annum if Ruihu could not meet the target profit and certain requirements in any of the years from 2017 to 2019 as set out in the supplementary agreement. This right is derivative financial instrument. The initial fair value of the derivative of approximately RMB33,199,000 was recognised in 2016 and it was remeasured at fair value at the end of each reporting period with a loss/gain on fair value change recognised in profit or loss. Details of them are set out in Note 27 of the consolidated financial statements.

Note b:
The Group had also entered into a transfer agreement about equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. in 2017. Jiangsu Huiyin Electronic Commerce Co., Ltd. is a subsidiary of the Group. Pursuant to the transfer agreement, the Group agreed to purchase 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. from a non-controlling interest, 蘇州瑞華投資合伙企業（有限合伙）, at a price of approximately RMB75,750,000. The transfer of 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. would be effective upon payment of transfer price pursuant to the transfer agreement. The capital commitment in respect of the aforesaid purchase of 10% equity interest from a non-controlling interest is set out in Note 41(b).

The above capital commitment in respect of purchase 10% equity interest from a non-controlling interest has not yet included interest in the amount of approximately RMB24,639,000 (2017: RMB18,139,000) and default penalty of RMB10,453,000 (2017: RMB2,636,000) arising from the late capital investment after the year 2017 calculated at 13% and 0.03% per annum respectively.

42. ASSETS LEASED OUT UNDER OPERATING LEASES

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 1 to 5 years, with certain leases having an option to renew the lease after that date at which time all terms are renegotiated. None of the leases included contingent rentals.

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Not later than 1 year	**3,980**	3,254
Later than 1 year and not later than 5 years	**7,992**	10,356
Later than 5 years	**—**	26
	11,972	13,636

43. RELATED PARTY DISCLOSURES

Apart from the material transactions and balances with related parties as disclosed in the consolidated financial statements, the Group has entered into the following material transactions with its related parties together with the balances with them at the end of the reporting:

(a) Transactions with related parties

During the year, the Group entered into the following transactions with related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
– Rental expenses to the former director Mr. Cao Kuanping	**3,672**	3,744
– Purchase of goods from Ruihu	**—**	32,162

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

Two property leasing contracts, one for office use and the other for retail purpose, were entered into by the Group with Mr. Cao Kuanping in 2013 for a term of 3 years from 20 January 2013 to 19 January 2016. During the year ended 31 December 2017, these two lease contracts are extended to 19 January 2019. The aggregate annual rents payable by the Group to Mr. Cao Kuanping under the two property leasing contracts amounting to approximately RMB3,672,400 (2017: RMB3,744,000).

(b) Key management compensation

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries, allowances and other benefits in kind	**3,434**	3,933
Social security costs	**148**	238
	3,582	4,171

44. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in and amounts due from subsidiaries	**—**	36,648
Current assets		
Cash and cash equivalents	**26,596**	206
Total assets	**26,596**	36,854
EQUITY		
Capital and reserves		
Share capital (Note 20)	**16,766**	13,739
Share premium (Note 21 & note a)	**1,803,618**	1,613,731
Other reserves (Note 21 & note c)	**119,475**	119,475
Accumulated losses (note a)	**(1,966,810)**	(1,736,837)
Total equity	**(26,951)**	10,108
LIABILITIES		
Non-current liabilities		
Borrowings	**7,616**	7,062
Current liabilities		
Accruals and other payables	**45,931**	2,695
Borrowings	**—**	16,989
	45,931	19,684
Total liabilities	**53,547**	26,746
Total equity and liabilities	**26,596**	36,854

Yuan Li
Director

Liu Simei
Director

44. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Note a:

Reserve movement of the Company

	Share premium RMB'000 (Note 21)	Other reserves RMB'000 (Note 21)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017	1,380,409	119,475	(1,174,660)	325,224
Share premium arising from issue of ordinary shares (Note 21)	233,322	—	—	233,322
Loss and total comprehensive loss for the year 2017	—	—	(562,177)	(562,177)
Balance at 31 December 2017	1,613,731	119,475	(1,736,837)	(3,631)
Balance at 1 January 2018	**1,613,731**	**119,475**	**(1,736,837)**	**(3,631)**
Share premium arising from issue of ordinary shares (Note 21)	**189,887**	**—**	**—**	**189,887**
Loss and total comprehensive loss for the year 2018	**—**	**—**	**(229,973)**	**(229,973)**
Balance at 31 December 2018	**1,803,618**	**119,475**	**(1,966,810)**	**(43,717)**

45. LITIGATION AND CONTINGENCY

During the year ended 31 December 2017, Jiangsu Huiyin Electronics Commerce Co. Ltd., a subsidiary of the Company, obtained one month borrowing of RMB100 million from 江蘇瑞華投資控股集團有限公司("Ruihua"). In August 2018, Ruihua initiated a legal claim against Jiangsu Huiyin Electronics Commerce Co. Ltd. for a total amount of RMB18,038,000, including principal of RMB15,730,000 and overdue charge of RMB2,308,000. As at 31 December 2018, the outstanding amount due to Ruihua was approximately RMB 3,900,000, including principal of approximately RMB3,315,000 and accrued penalty charge of RMB585,000 (2017: the outstanding amount was RMB 28,150,000, including principal of RMB27,800,000 and accrued penalty of 350,000).

On 3 April 2019, Ruihua withdrew the above claims and litigation against the Group about the above borrowing provided that the Group would settle the outstanding balance and legal costs arising from the litigation according to mutual agreement made with Ruihua.

46. EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) In January 2019, the Group entered into an agreement with a company (新余滴行京流科技有限公司) connected with a director of the joint venture to advance RMB33,000,000 from that company for a maturity period of 2 years from the date of the advance. The advance carries interest at a fixed rate of 5% per annum and is repayable together with interest payable on 16 January 2021.

(ii) In January 2019, the Group also entered into another agreement with certain independent third parties to advance RMB42,000,000 from the independent third parties for a maturity of 2 years from the date of the advance. The advance carries interest at a fixed rate of 5% per annum and is repayable together with interest payable on 16 January 2021.

(iii) On 27 March 2019, the Group signed a compromise agreement amongst Jiangsu Ruihua Investment Holding Group CO., Ltd. ("Ruihua") and 蘇州瑞華投資合伙企業(有限合伙) ("瑞華合伙") (collectively referred as "Ruihua Enterprises") for settlement of the matters regarding (a) the financial liabilities arising from the derivative financial instruments as set out in Note 27; and (b) the Group's capital commitment to purchase 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. from 瑞華合伙 as set out in Note 41.

Pursuant to the compromise agreement, the settlement would be made as follows:

Ruihua Enterprises withdrew the rights to sue the Group for settlement of the liabilities arising from the matters as described in (a) and (b) above to the extent of approximately RMB1.22 Billion (including interest and default penalty) upon the date of signing the compromise agreement amongst all parties to the agreement on the ground that:

(I) The Group has to pay Ruihua Enterprises a sum of RMB12,000,000 divided by 3 instalments; one of which in an amount of RMB2,000,000 was settled by the Group in April 2019. The remaining two instalments in the amounts of RMB4,000,000 and RMB6,000,000 have to be paid by the Group on or before 15 August 2019 and on or before 5 days after resumption of trading of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited respectively.

(II) In case Ruihua Enterprises unable to recover RMB72,000,000 in full from the former Chairman, Mr. Cao Kuanping on or before 31 December 2019 arising from the matters as mentioned in (a) and (b) above, the Group has to pay the remaining shortage balance to Ruihua on or before 30 June 2020.

(III) Certain land use right and building of the Group with the aggregate carrying amount of approximately RMB37,011,000 as at 31 December 2018 to be pledged to secure the obligations of the Group under this compromise agreement.

In case the Group unable to fulfill the above requirements as set out in the compromise agreement, Ruihua Enterprises have a right to request the Group to settle the matters as described in (a) and (b) above based on the original amount of approximately RMB RMB1.22 Billion plus any further default penalty which is 0.05% of the outstanding balance.

On 8 April 2019, approximately RMB60,049,000 of the properties of the former Chairman, Mr. Cao Kuanping, were seized and frozen by the PRC court in respect of claims and litigations made by Ruihua against Mr. Cao Kuanping arising from the aforesaid purchase request from Ruihua Enterprises in respect of 51% equity interest in Ruihu and 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd.

46. EVENTS AFTER THE END OF THE REPORTING PERIOD *(continued)*

(iv) In April 2019, the Group entered into an agreement with a company(圣商(北京)控股集团有限公司) controlled by the Chairman, Yuan Li, of the Company to advance RMB2,000,000 from that company for a maturity period of 18 months from the date of the advance. The advance carries interest at a fixed rate of 5.5% per annum and is repayable together with interest payable on 2 October 2020.

(v) In 25 May 2019, the Group received a notice from an independent individual third party to extend the maturity periods of his advance together with interest payables in aggregate of RMB181,970,000 as at 31 December 2018 to 30 June 2021.

(vi) On 5 June 2019, a company controlled by Mr Yuan Yang (family member of the Chairman, Yuan Li) made an advance of approximately RMB42,207,000 (equivalent to USD6,170,000) to the Company at a fixed interest rate of 5% per annum. The advance will be due for repayment on 6 June 2020.

47. COMPARATIVE FIGURES

Following reassessment of the prior years' consolidated financial statements made by the board of directors of the Company in current year, restatement of the comparative figures has been made in the consolidated financial statements arising from the most appropriate treatment for the misstatement in prior years as set out in Note 3 to the consolidated financial statements.

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.1.3.

In addition, certain comparative figures of the consolidated financial statements were reclassified to conform with the current year's presentation.

48. APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 57 to 171 were approved and authorised for issue by the board of directors of the Company on 14 June 2019.

FINANCIAL SUMMARY

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000
Results					
Revenue	**920,807**	1,347,436	1,384,029	2,053,850	3,093,022
(Loss)/Profit attributable to equity holders of the Company	**(160,731)**	(715,623)	(722,752)	(398,598)	50,004
Assets and liabilities					
Total assets	**601,885**	1,015,475	1,895,820	2,714,342	3,396,448
Total liabilities	**772,784**	1,212,588	1,559,070	1,973,043	2,549,626
Total equity	**(170,899)**	(197,113)	336,750	777,299	846,822
Non-controlling interests in equity	**22,787**	28,756	22,436	12,833	45,145