奇点国际有限公司
Qidian International Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1280

ANNUAL REPORT

2019

CONTENTS

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. Xu Xinying *(Vice-chairman)*
Ms. Liu Simei *(Chief Executive Officer)*
Mr. Sun Lejiu
Mr. Xin Kexia

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

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 54, 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 2019 was approximately RMB470.7 million, representing a decrease of 48.9% from approximately RMB920.8 million for 2018, mainly attributable to that the Company has strategically discarded non-performing new retail business of continuous losses.

2

Gross profit margin for 2019 was 8.2%, while that of 2018 was 2.5%.

3

Operating loss for 2019 was approximately RMB94.8 million, while there was operating loss of approximately RMB144.3 million for 2018.

4

Loss for 2019 was approximately RMB108.9 million, while there was loss of approximately RMB165.8 million for 2018.

Chairman's Statement

DEAR SHAREHOLDERS,

On behalf of the board (the "Board") of directors (the "Directors") of Qidian International 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 2019.

Chairman's Statement

The Chinese consumer market became more important in 2019 against the backdrop of US-China trade friction and a slight decline in domestic macroeconomy. "Domestic demand" played an important role among the three major drivers of the national economy. Consumption, which contributed 76.2% of the economic growth, has been the major driving force behind China's economic growth for five consecutive years. Revenue of Alibaba in the financial year of 2019, for instance, increased by more than RMB120 billion, or 51%. With such strong growth, we see a new era of consumption where the digitalization of consumers, goods and locations will bring us a huge consumer market and new opportunities in supply side.

In the new era of consumption, the home appliance retail industry, on one hand, can take advantage of first-mover opportunities. On 31 October 2019 in the"5G Commercialization Conference", it was announced that China's 5G has officially entered the commercial stage and the 5G+Internet of Things ("**IoT**") integration will lead to the next industrial revolution. As it marks the start of the 5G era, the Group will speed up the integration of OTO and IoT, adopt the use of smart scenario application in offline stores for better customer experience and accelerate the promotion of new consumption strategies, with the aim to develop into an empowered new Qidian in the 5G era.

On the other hand, the home appliance retail industry can also benefit from governemnt policies and consumption upgrade of home appliances. On 6 June 2019, the National Development and Reform Commission issued the Notice on the Implementation Plan for Promoting the Update and Upgrading of Key Consumer Goods and the Recycling of Resources (2019-2020) (《推動重點消費品更新升級暢通資源循環利用實施方案 (2019-2020年)》), which aims to further promote the consumption upgrade of key consumer goods (such as home appliances) and the development of circular economy. On 27 August 2019, the General Office of the State Council issued the Opinions on Accelerating the Development of Circulation and Promoting Commercial Consumption (《關於加快發展流通促進商業消費的意見》), which once again supports the green smart home appliances by providing credit support to residents who purchase green smart products such as green smart household appliances, smart homes and water-saving appliances, increasing financial support in new consumption area and laying a solid foundation for acceleration of commercialization of 5G. With strong policy support, China's home appliance consumption has started the new era of "Home Appliance Subsidy 2.0" and "Smart Home".

To cope with changes brought by the new consumption era, in 2018 and 2019, the Group streamlined the management structure and restructured the ecosystem among consumers, goods and locations of the retail industry. We added traffic acquisition channels such as WeChat mini programme, WeCity, WeStore and Official Accounts Platform, which brought traffic at low cost. Their positive impact on performance will gradually surface after 2020.

Chairman's Statement

After more than 20 years of operation and development, the Group has gradually developed into a leading brand in the house appliances market in the third- and fourth-tier cities in China. With the arrival of the new era of "Home Appliance Subsidy 2.0", "Smart Home" and "5G", the Group will keep pace with changes of the era, capture new opportunities of industry development, occupy market share, continue to effectively balance customer acquisition costs, logistics costs and customer experience of product categories, and practically prepare for new consumption landscape. Meanwhile, the Group will make full use of cloud computing and big data for analyzing new consumption patterns with technological empowerment.

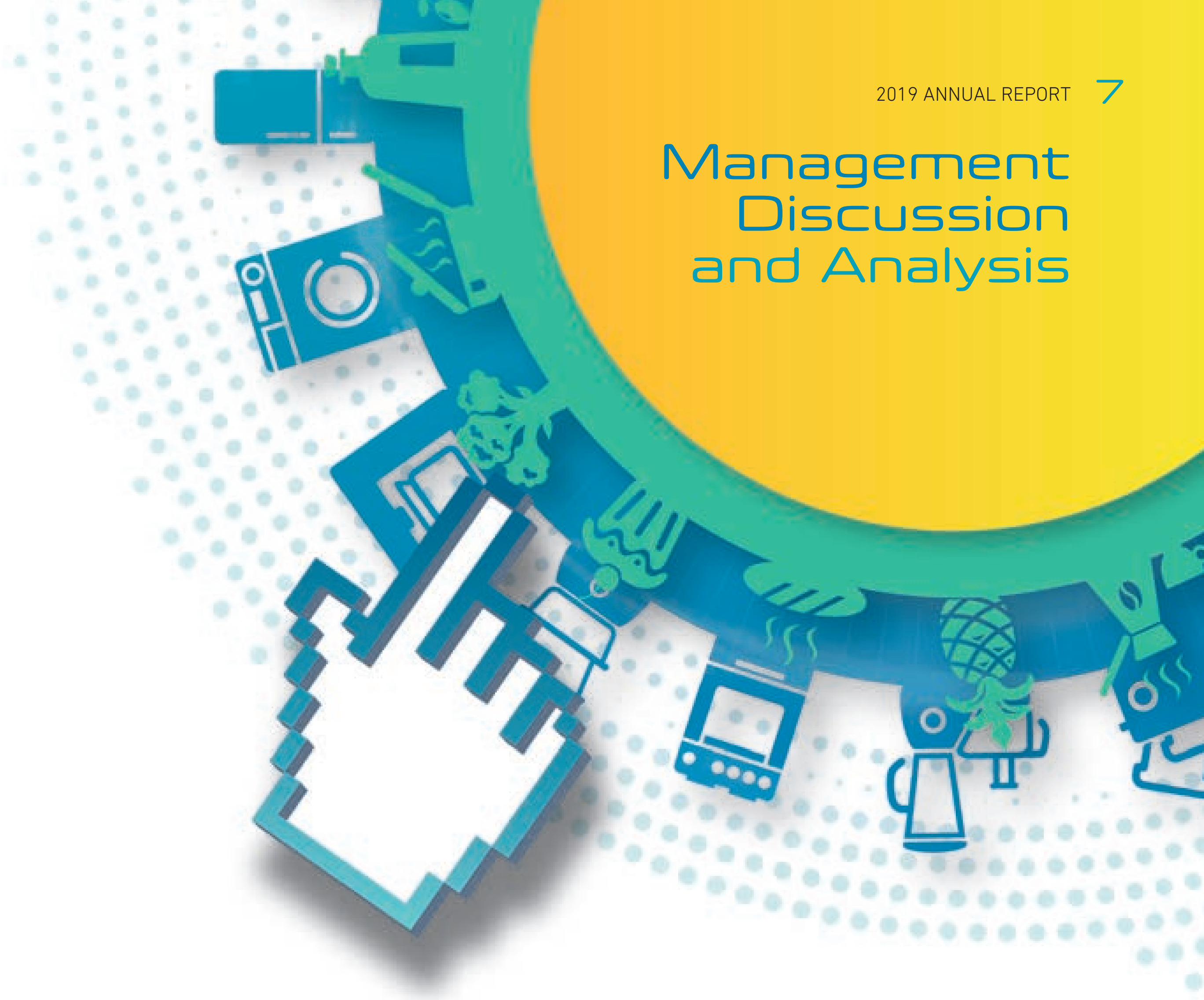
Finally, on behalf of the Board, I would like to express my wholehearted thanks to all shareholders and investors who have shown their care and support to the Company. The continuous efforts of all staff members of the Group are highly respected and appreciated by us, and we would also like to extend our sincere gratitude to different sectors of the community for their support. 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 the Group to overcome all challenges and further advance the Group's new consumption strategy with technological empowerment.

Yuan Li
Chairman

Hong Kong, 17 April 2020

Management Discussion and Analysis



MARKET REVIEW

The overall global macroeconomy has been weak since 2019. Economic growths in major developed economies such as the United States, Europe and Japan stagnated and those in most emerging economies also showed a sign of slowing down. Global industrial growth remained subdued and trade sectors were sluggish. There are still great uncertainties to the global economic growth, together with a further increase in downward pressure.

The International Monetary Fund lowered the global economic growth rate several times. In the "Global Macroeconomic Review 2019 and Outlook 2020", the global economic growth in 2019 was estimated to decrease to 3.0%, the slowest growth since the Global Financial Crisis in 2008 and the most severe decline since 2017. The International Monetary Fund repeatedly emphasized that heightened tariff dispute, trade and geopolitical uncertainties and structural factors in developed economies have led to downward pressure on the global economy which became more significant in 2019.

China's economy made steady progress under greater domestic and foreign uncertainty in 2019, with economic growth up more than 6.0%. The national GDP growth rate were 6.4% for the first quarter, 6.2% for the second quarter, 6.0% for the third quarter and 6.0% for the fourth quarter, representing a year-on-year increase of 6.1%. The economic downward pressure has increased. However, China's macro data largely recovered in November and the overall macro-economy remained stable. On one hand, it demonstrated that the resilience of China's economy in facing downward pressure laid a solid foundation for China's long-term economic growth, and on the other hand, the continuous implementation of China's "Six Stabilities" policy supported the economy.

Management Discussion and Analysis

BUSINESS REVIEW

Amid the stable economic growth in China despite the downward pressure, the Group mainly adjusted its management structure and carried out business restructuing in 2019, including:

1. Improving, supervising and implementing the internal control system

The Group formulated a set of detailed and practical manuals for internal control according to the actual situation, which were finalized on 26 February 2019 and published on 1 March 2019. On 10 May 2019, an independent third party internal control advisor concluded its ongoing review and issued a report on implementation of rectification measures. At the same time, an independent third party was engaged to provide external trainings to the mid-to-senior level employees in relation to the awareness, importance and procedures of internal control. On top of supervising and implementing the internal control system, the Group has also strengthened its internal trainings to the employees in relation to the implementation of internal control, which were included in the KPI review of such employees to strengthen the effectiveness of the implementation of the internal control system.

2. Adjusting product lines based on big data

During the reporting period, through utilizing the big data technology, the Group further explored customer demands, closely followed market trends, further enriched product stock keeping unit and thus increased inventory turnover rates. The Group proposed the strategic guidelines of "old business, new method, rooted in Jiangsu and Anhui, with extension to the whole nation", under which the Group capitalized on the policy benefits and seized the opportunities of market adjustment, and enhanced its sales systems and strengthened the trainings. Through the use of diversified new technologies and new methods, the Group adjusted its product lines which will continuously improve the Company's profitability.

3. Strengthening alliance across different industries, expanding the traffic acquisition channels and increasing user stickiness

During the reporting period, the Group vigorously promoted the development of merchandise exchange platform, service rating platform and IoT service platform. On the merchandise exchange platform, the Group cooperated with Youzan and set up WeCity and WeStore, which facilitated the ordering process for customers. On the service rating platform, the Group created a visualized rating system which allows the customers to provide rating and share experiences in respect of the physical stores, logistics, after-sales repair and maintenance, and online customer service, which better satisfied the needs of customers. On the IoT service platform, the Group further extended the merchandise operations and service provision from stores to homes by the use of upgraded technologies and service capabilities which increased user interactions as well as user stickiness.

Through the optimization of the online mall of Huiyin Lehu and the addition of the WeChat apps and official account of Huiyin Lehu, the Group undertook circle operation and membership management to improve user stickiness and the rate of repeated purchase by existing customers. For example, the Group initiated a customer relationship management project targeting at existing customers, whereby the Group organized the information of existing customers over the past two decades, and arranged the customer service team to send greetings to existing customers via SMS and by phone. In the meantime, the Group launched various rounds of marketing activities on the official account of the Company searching for "old invoices" to recall the old memory of the customers and increase their user stickiness.

4. Optimizing customer service: after-sales service and logistics management

(i) After-sales service

1. In terms of the after-sales service personnel, all the service personnel of the Group are certified and have passed the examination of the provincial household electrical appliances association. They have obtained a qualification certificate in the form of QR code;

2. The Group's after-sales services cover all categories and the full range of products, and all kinds of after-sales request can be handled by making a phone call to the service hotline;

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.

(ii) Logistics management

On the one hand, through the cooperation with nearly ten heavy-cargo logistics operators all of which are independent third parties such as SF Express, Deppon Express and CNEX, the Group has expanded its geographical coverage of after-sales customer service with less capital investment and bearing lower operational risks. On the other hand, the Company has built its own logistic team and is committed to optimising the logistics management of its existing logistics networks, warehouses and distribution centres to cope with the growing business requirements.

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 its after-sales and logistics into a centralised platform to improve the efficiency and effectiveness of the customer service management.

5. Integrating and upgrading the information management and office system

As of the date of this report, to improve the efficiency of employees, enhance the corporate governance, and strengthen the effective implementation and feedback of internal control, the Group has fully 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 realtime management and control at all levels.

6. Excellent human resources

As of the date of this report, the Group continued to sort out the functions, job requirements and KPIs of human resources.

As at 31 December 2019, the number of employees of the Group was 480. To enhance the employees' competency and improve their comprehensive skills, the Group organised more than 20 trainings with different themes, covering induction training, product knowledge, sales skills, leadership skills, and corporate culture, which widely cater to the needs of different levels of employees and have attracted more than 1,000 employees to participate in such trainings.

Management Discussion and Analysis

7. Building corporate culture

During the reporting period, under the guidance of a periodic "loss reduction" strategy, the Group enhanced its corporate cultural system. After the enormous losses suffered by the Group in the past few years and the change of the board members and management members, the Group, on one hand, conducted a huge amount of review work in respect of the selection of team members. In the meantime, in respect of the building of corporate culture, vision and values, and the restoration of code of conduct for employees' behaviours, the Group organized several trainings and outward bound activities in conformity with the Group's vision and values and code of conduct to increase solidarity and cohesion among the majority of employees toward the Group, as well as the execution capabilities on their respective job positions.

In a nutshell, with the arrival of the era of "Home Appliance Subsidy 2.0", the Group will concentrate on improving the internal corporate governance, and seize the breaking point of the replacement cycle of the national industry policy for purchase of home appliances in the rural areas in the PRC. The Group will focus its efforts and resources on the principal business of household appliances and more effectively apply a diversified marketing and promotion strategy and strengthen alliance across different industries to quicken the inventory turnover, boost market share and total sales, and realize the transitional development of the Group by actively broadening its thinking, coupling with its own structure and market demand.

For the year ended 31 December 2019, the Group's total revenue was approximately RMB470.7 million, representing a decrease of approximately 48.9% from approximately RMB920.8 million for the year ended 31 December 2018.

The Group recorded a loss of approximately RMB108.9 million for the year ended 31 December 2019 as compared to a loss of approximately RMB165.8 million for the year ended 31 December 2018. Gross profit margin was approximately 8.2% and approximately 2.5% for the years ended 31 December 2019 and 2018, respectively.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue was approximately RMB470.7 million, representing a decrease of 48.9% from approximately RMB920.8 million for the year ended 31 December 2018.

Turnover of the Group comprises revenues as follows:

	2019 RMB'000	2018 RMB'000
Types of goods and services		
Sales of goods		
– Traditional business	**461,552**	849,132
– New retail business	**—**	64,216
	461,552	913,348
Rendering of services		
– Maintenance and installation services	**9,179**	7,459
Total revenue	**470,731**	920,807

Cost of sales and services

For the year ended 31 December 2019, the cost of sales and service was approximately RMB432.0 million, decreased by 51.9% from that of approximately RMB897.6 million for the year ended 31 December 2018, which was due to the decrease of sales volume.

Gross profit

For the year ended 31 December 2019, the gross profit was approximately RMB38.7 million, increased by 66.8% from that of RMB23.2 million for the year ended 31 December 2018.

Other income

For the year ended 31 December 2019, other income recorded by the Group amounted to approximately RMB9.0 million, representing a decrease of 41.9% in comparison to approximately RMB15.5 million for the year ended 31 December 2018. This was mainly due to the decrease in sales volume, which led to the reduction of other income from the related supporting services.

Other net gain

For the year ended 31 December 2019, the Group recorded other net gain of approximately RMB5.3 million, in comparison to other net gain of approximately RMB7.9 million for the year ended 31 December 2018.

Selling and marketing expenses

For the year ended 31 December 2019, the Group's total selling and marketing expenses amounted to approximately RMB77.4 million, representing a decrease of 40.6% from approximately RMB130.3 million for for the year ended 31 December 2018.

Administrative expenses

For the year ended 31 December 2019, the Group's total administrative expenses amounted to approximately RMB64.6 million, decreased by 2.1% from approximately RMB66.0 million for the year ended 31 December 2018.

Operating loss

For the year ended 31 December 2019, the operating loss amounted to approximately RMB94.8 million, decreased by 34.3% from approximately RMB144.3 million for the year ended 31 December 2018.

Net finance costs

For the year ended 31 December 2019, the net financial costs of the Group amounted to approximately RMB14.1 million, representing a decrease of 35.0% in comparison to approximately RMB21.7 million for the year ended 31 December 2018 which were mainly due to the waiver of interest payments of RMB18.9 million by a lender.

Management Discussion and Analysis

Loss before income tax

For the year ended 31 December 2019, the loss before income tax amounted to approximately RMB108.9 million, while the loss before income tax was approximately RMB166.0 million for the year ended 31 December 2018.

Income tax credit

For the year ended 31 December 2019, the income tax credit of the Group amounted to approximately RMB4,000, while the income tax credit was approximately RMB0.2 million for the year ended 31 December 2018.

Loss attributable to equity holders of the Company

The loss of attributable to equity holders of the Company for the year ended 31 December 2019 was approximately RMB108.8 million, while the loss attributable to equity holders amounted to approximately RMB160.7 million for the year ended 31 December 2018.

Cash and cash equivalents

At 31 December 2019, the Group's cash and cash equivalents were approximately RMB23.7 million, representing a decrease of 50.7% from approximately RMB48.1 million as at 31 December 2018.

Inventories

At 31 December 2019, the Group's inventories amounted to approximately RMB77.3 million, representing a decrease of 50.9% from RMB157.5 million as at 31 December 2018.

Prepayments, deposits and other receivables

At 31 December 2019, prepayments, deposits and other receivables of the Group amounted to approximately RMB74.8 million, representing a decrease of 26.2% from approximately RMB101.3 million as at 31 December 2018, which was mainly due to the prepaid rentals were reclassified as right-of-use assets in 2019 and the decrease in value added tax receivable as resulted from the decrease in business volume.

Trade and bills receivables

At 31 December 2019, trade and bills receivables of the Group amounted to approximately RMB8.9 million, representing a decrease of 62.9% from approximately RMB24.0 million as at 31 December 2018, which was mainly due to the scale down of new retail business and decrease in business volume.

Trade and bills payables

At 31 December 2019, trade and bills payables of the Group amounted to approximately RMB131.1 million, representing a decrease of 18.9% from approximately RMB161.7 million as at 31 December 2018, which was mainly due to the decrease of bills payable.

Gearing ratio and the basis of calculation

At 31 December 2019, gearing ratio of the Group was 158.8%, increased from that of 128.4% as at 31 December 2018. 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 2019, the net cash outflow from the Group's operating activities was approximately RMB2.1 million, while it was approximately RMB310.4 million for the year ended 31 December 2018. The cash flow was negative due to the severe loss of the Group.

For the year ended 31 December 2019, the net cash outflow from financing activities was approximately RMB21.7 million, compared with the net cash inflow RMB320.5 million for the year ended 31 December 2018. This was mainly due to the lease rentals payment.

Liquidity, financial resources and capital structure

The Group actively and regularly reviews and manages its capital structure to maintain a balance between achieving shareholders returns and prudent level of borrowings and to ensure a sound capital position, and shall from time to time make adjustments to the Group's capital structure in light of changes in economic conditions.

For the year ended 31 December 2019, the Group's working capital, capital expenditure and investment cash were funded from cash on hand, bank borrowings, and advance from third parties and related parties. As at 31 December 2019, the interest-bearing borrowings of the Group amounted to RMB0 million, representing a decrease from RMB38 million as at 31 December 2018.

As at 31 December 2019, the interest-bearing advance from third parties and related parties, and equity investor of an associate of the Group amounted to RMB403 million, representing an increase from RMB341 million as at 31 December 2018.

As at 31 December 2019, the Group's cash and bank balances were mainly held in Renminbi, and the Group's borrowings were denominated in Renminbi and in US dollar with floating or fixed interest rate. As at 31 December 2019, the Group's borrowings at fixed rates comprise nil bank borrowings (2018: RMB38 million) and other borrowings/advances of approximately RMB403 million (2018: RMB341 million).

Pledging of assets

As at 31 December 2019, certain right-of-use assets, buildings and investment properties with a total carrying amount of RMB191.0 million had been pledged.

Significant investment, acquisitions and disposal

For the year ended 31 December 2019, the Group had no significant investment, acquisitions and disposal.

Contingent liabilities

As at 31 December 2019, the details of the contingent liabilities of the Group are set out in note 51 to the consolidated financial statement.

Management Discussion and Analysis

Litigations made by the Group against suppliers

During the year ended 31 December 2019, the Group continued the legal proceedings against two suppliers namely Yangzhou Suohai Electronics Co. Limited ("**Suohai**") and Jiangsu Zhipu Electronics Appliance Co. Ltd. ("**Zhipu**") for recovery of prepayments totaling RMB355,371,000 made to them in previous years. In view of the uncertainty of the legal proceedings and the difficulties in enforcing the judgement against Suohai and Zhipu, the prepayments were fully written off in prior year. At 31 December 2019, there were outstanding amounts of RMB58,911,000 arising from purchases of goods from Suohai and Zhipu made in previous years which were included in the trade payable as stated in the consolidated financial statements. Up to the date of approval of these consolidated financial statements, the litigations are still in progress.

Capital commitments

At 31 December 2019, the Group had no capital commitment (2018: RMB174 million).

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 had 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 does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: 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.

On 5 March 2010, the Company adopted a share option scheme to grant options to eligible participants so as to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants. Details of the share option scheme are set out in the paragraphs headed "Share Option Scheme" in this annual report.

The aforementioned share option option expired on 5 March 2020.

Human resources

As at 31 December 2019, the Group had 480 employees, decreased by 28.9% from 675 employees as at 31 December 2018.

Remuneration of Directors and Senior Management

Please refer to note 38 to the consolidated financial statements for details of remuneration of the Directors for the year ended 31 December 2019.

Details of the remuneration by band of Directors and senior management of the Company, whose biographies are set out on in the section headed "Directors' and Senior Management's Profile" on pages 38 to 43 of this annual report, for the year ended 31 December 2019 are set out below.

Remuneration bands (RMB)	Number of individuals *(Note)*
0 – 100,000	9
100,001 – 500,000	5
500,001 – 1,000,000	1

Note:

(1) Mr. Sun Lejiu had been a member of the senior management of the Company for the year ended 31 December 2019 and was appointed as an Executive Director on 9 March 2020.

(2) Mr. Tam Chun Chung resigned as an Independent Non-executive Director on 30 January 2019. Mr. Wang Cai resigned as Non-executive Director on 31 January 2019. Ms. Xu Honghong was appointed as Non-executive Director on 8 March 2019. Mr. Fung Tak Choi was appointed as the Independent Non-executive Director on 19 February 2019. For details in the remuneration of each of Mr. Tam Chun Chung, Mr. Wang Cai, Ms. Xu honghong and Mr. Fung Tak Choi, please refer to note 38 to the consolidated financial statements in this annual report.

Outlook

Looking forward to 2020, despite China's stable economy with a modest decline under the continuous downward pressure, in light of various positive factors, including government incentives for domestic consumption, huge consumption potentials of third- and forth-tier cities, Home Appliance Subsidy 2.0 and the start of 5G era, the house appliance retail industry still enjoys a bright outlook.

First, the government gives consumption incentives through its policies

On 27 August 2019, the General Office of the State Council issued the Opinions of the General Office of the State Council on Accelerating the Development of Circulation Industry and Promoting Consumer Spending (the "**Opinions**"), which proposed 20 policy measures to stabilize the consumption expectation and boost consumer's confidence. Of the many measures, highlights are the expansion of rural consumption and encouraging new consumption. The policy breaks the mold of stimulating consumption through subsidies. Instead, it drives consumption through new supplies, new formats, and new models, such as nighttime economy and Internet+.

As a well-established brand in Jiangsu and Anhui regions, the Company will closely capture the opportunities from policy development, keep in mind the three new consumer essential factors of "new customers, new products and new technologies" and explore consumer demand. It will make use of dynamic scenarios to provide sales and service in order to improve customer experience and continue to expand market share. It will keep on optimizing the Company's profitability and solidify its position in the industry.

Second, there are opportunities from a vast rural incremental market

In China, there still exist 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 and small 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- and 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 third-tier cities or below is more than 1 billion, which cities are featured with characteristics such as a large population base, rapid income growth, high marginal propensity to consume and a low level of awareness. As the consumption capacity of consumers in the third- and fourth-tier cities or below gradually emerges, this customer 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- and fourth-tier cities or below, 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. The Company will align its human resources, capital, assets and technologies to increase its market share in areas from third-tier to emerging cities in East China to become a reputable regional home appliance chain enterprise. We will strategically take an incremental approach to start with third-tier cities and gradually penetrate into emerging cities in a progressive manner in order to achieve full coverage within the region ultimately.

Third, the implementation of "Home Appliance Subsidy 2.0" encourages home appliance consumption

On 29 January 2019, 10 departments including the National Development and Reform Commission jointly issued the Implementation Plan for Further Optimizing Supply to Promote the Stable Consumption Growth and Facilitating the Formation of a Strong Domestic Market (2019), which provided supports to green and smart home appliance sales and promoted upgrades of home appliance products. It marks the official implementation of "Home Appliance Subsidy 2.0" policy. Regarding the promotion and impact of the policy, the National Development and Reform Commission stated that the use of financial subsidies and other methods will help promote efficient and energy-saving smart products. If the policy is promoted nationwide, it is expected to increase sales of 150 million energy-efficient smart home appliances between 2019 and 2021, driving consumption to approximately RMB700 billion.

With the advancement of the Home Appliance Subsidy 2.0 policy, the Group will collect big data and research on customers historical orders in order to effectively understand consumers' shopping habits and preferences, reasonably prepare home appliance retail products, increase the proportion of high-margin products and smart and green home appliance products, which can effectively improve the Group's overall gross profit margin and profitability.

Fourth, the new 5G era empowers new consumption

Since 6 June 2019, the Ministry of Industry and Information Technology has issued 5G commercial licenses to the top 4 telecommunication operators including China Telecom, China Mobile, China Unicom and China Broadcasting Network, representing China's entry of the 5G era. On 9 December 2019, the China Academy of Information and Communications Technology released the white paper of "5G+Cloud+AI: Drivers of the New Era of the Digital Economy" (the "**White Paper**"), which reviewed the state of digital economic development in China and analysed the role of integration and innovation of 5G, cloud computing and AI in the process of digital transformation. The White Paper stated that China's digital economy totalled RMB31.3 trillion in 2018, accounting for 34.8% of the GDP. While the digital economy plays a key role in China's national economy, it also drives the industry's continuous development of the adaptation of internet, online platforms and intelligence.

With the arrival of the 5G era, the Group has integrated OTO and IoT into our products or models to start the use of smart scenarios application in offline stores for better customer experience as well as to improve warehouse and logistics infrastructure, build a good supply chain system and accelerate new consumption strategies. The Group will develop into a new, empowered "new consumption" in the 5G era.

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 2019, the Company has complied with the code provisions as set out in the CG Code.

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 nine members, consisting of five 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. Xu Xinying, Vice-chairman
Ms. Liu Simei, Cheif Executive Officer
Mr. Sun Lejiu
Mr. Xin Kexia

Non-executive Director:
Ms. Xu Honghong

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

Corporate Governance Report

The biographical information of the Directors are set out in the section headed "Directors' and Senior Management's Profile" on pages 38 to 43 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.

Save as disclosed in the section headed "Directors' and Senior Management's Profile" on pages 38 to 43 of this annual report, there are no financial, business, family or other material/relevant relationships among members of the Board.

For the period from 30 January 2019 to 18 February 2019, as Mr. Tam Chun Chung resigned as an Independent Non-executive Director on 30 January 2019, the number of Independent Non-executive Directors was less than three. Other than that, during the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board, and of whom at least one independent non-executive Director must possess appropriate professional qualifications or accounting or related financial management expertise.

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

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

Chairman and Chief Executive Officer

During the year ended 31 December 2019, the Company has adopted and complied with code provision A.2.1 of the CG Code which stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and the Group's Chief Executive Officer should be clearly established and set out in writing. Mr. Yuan Li is the Chairman of the Company who provides leadership and is responsible for the effective functioning and leadership of the Board, while Mr. Xin Kexia was the Chief Executive Officer of the Company who focuses on the Company's business development and daily management and operations generally. Ms. Liu Simei, a fellow Executive Director, has taken up the role of Chief Executive Officer of the Company from Mr. Xin Kexia with effect from 9 March 2020.

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 contract with the Company commencing on 29 December 2017. Ms. Liu Simei was appointed as an Executive Director on 29 December 2017, resigned on 27 April 2018 and was 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 was appointed as an Executive Director on 15 June 2018 and entered into a service agreement on 15 June 2018. Mr. Sun Lejiu was appointed as an Executive Director on 9 March 2020 and entered into a service contract with the Company on the same date.

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.

According to article 16.18 of the articles of association of the Company, Mr. Xin Kexia, Mr. Zhao Jinyong and Mr. Chen Rui shall retire and offer themselves for re-election at the forthcoming annual general meeting. Mr. Sun Lejiu, an Executive Director, being appointed by the Board on 9 March 2020, shall retire and offer himself for re-election at the forthcoming annual general meeting according to article 16.2 of the Company's articles of association.

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.

Corporate Governance Report

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

Directors	Types of Training
Mr. Yuan Li	A, B
Mr. Xu Xinying	A, B
Ms. Liu Simei	A, B, C
Mr. Xin Kexia	A, B
Ms. Xu Honghong	A, B, C
Mr. Zhao Jinyong	A, B, C
Mr. Chen Rui	A, B, C
Mr. Fung Tak Choi	A, B
Mr. Sun Lejiu (appointed on 9 March 2020)	A

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.

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. Zhao Jinyong, Mr. Chen Rui 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. 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 January 2019 to 18 February 2019, the number of members of the Audit Committee was two.

During the year, the Audit Committee held four meetings to review the 2018 interim and annual financial results and 2019 interim results, all members of the Audit Committee have attended the meetings.

During the year ended 31 December 2019, the Board did not hold a different view from the Audit Committee on the appointment, designation or dismissal of external auditors.

During the year ended 31 December 2019, the Audit Committee also met the external auditor twice without the presence of the Executive Directors.

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 and Mr. Chen Rui. Mr. Zhao Jinyong has been appointed as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee held one meeting, to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Executive Directors and senior management.

Nomination Committee

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

The Nomination Committee consists of three members, Mr. Chen Rui, Mr. Zhao Jinyong and Mr. Fung Tak Choi (appointed on 19 February 2019), all of whom are Independent Non-executive Directors. 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 one meeting, to review the structure, size and composition of the Board and the independence of the independent non-executive directors. The Nomination Committee considers that an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Report

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, knowledge, 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 Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below:

	Attendance/Number of Meetings				
	Board Meetings	Nomination Committee Meeting	Remuneration Committee Meeting	Audit Committee Meetings	Annual General Meetings
Executive Directors					
Mr. Yuan Li	10/10	N/A	1/1	N/A	2/2
Mr. Xu Xinying	9/10	N/A	N/A	N/A	1/2
Ms. Liu Simei	10/10	N/A	N/A	N/A	2/2
Mr. Xin Kexia	7/10	N/A	N/A	N/A	0/2
Non-executive Directors					
Mr. Wang Cai *(resigned on 31 January 2019)*	2/2	N/A	N/A	N/A	N/A
Ms. Xu Honghong *(appointed on 8 March 2019)*	2/3	N/A	N/A	N/A	1/2
Independent Non-executive Directors					
Mr. Tam Chun Chung *(resigned on 30 January 2019)*	2/2	N/A	N/A	N/A	N/A
Mr. Zhao Jinyong	9/10	1/1	1/1	4/4	2/2
Mr. Chen Rui	8/10	1/1	1/1	4/4	2/2
Mr. Fung Tak Choi *(appointed on 19 February 2019)*	6/6	1/1	N/A	4/4	1/2

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.

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 2019.

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.

Corporate Governance Report

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 2019.

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 are 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. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

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. On 26 March 2018, the trading in the shares of the Company on the Stock Exchange was suspended because of the delay in publication of the 2017 annual results. In this connection, an Independent Investigation Committee has been formed on 2 April 2018 for conducting investigation on certain prepayments to two suppliers of the Group during the year ended 31 December 2017 (the "**Prepayments**") on which PricewaterhouseCoopers ("**PwC**"), the former auditors of the Company, considered that the Company's management has not provided sufficient explanation and evidence to support. An Internal Control Consultant has then been appointed by the Independent Investigation Committee.

The Internal Control Consultant has conducted an on-site internal control review to assist the Independent Investigation Committee to review the internal control procedures for any prepayment made by the management of the Company and issued an Internal Control Report. It has also completed the investigation on the matters relating to the Prepayments and issued an Investigation Report. The Independent Investigation Committee, after reviewing the Investigation Report, the Internal Control Report and a memorandum of advice from a PRC legal counsel, issued its report and made some recommendations.

The Internal Control Consultant has further been engaged to assist its extended investigations and has issued a stage two investigation report and a stage three investigation report.

In response to the issues discovered in the above reports, the Company has taken immediate and proactive steps to implement the action plans to rectify those issues with its best endeavours, including but not limited to the improvement of the existing internal control system and establishment of written policies and procedures as recommended by the Internal Control Consultant in relation to prepayment approval process, supplier selection and credit assessment and other aspects in connection with the management of the Group.

The Company has fulfilled all the resumption conditions and the resumption guidance which, among others, includes to demonstrate that the Company has put in place adequate internal control and procedures to comply with the Listing Rules. The Company has resumed trading on 11 November 2019. For details of the satisfaction of all resumption conditions and resumption guidance, please refer to the Company's announcement dated 11 November 2019.

The Company's auditors have reviewed the Group's internal control procedures for the year ended 31 December 2018 for the purpose of issuing the 2018 Annual Report. Up to the issue of the 2018 Annual Report on 21 June 2019, except for the disclaimer of opinion issued by PwC for 2017, the Company's auditors had never discovered any irregularities in relation to the internal control of the Group or raised any enquires or discovered any matters similar to the Prepayments or other transaction relating to the audit issues raised by PwC. On this basis, the Board and the Independent Investigation Committee are of the view that the internal control enhancements have been implemented across the Group.

The Board has conducted a review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2019. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the systems of risk management and internal control is an ongoing process and the Board will continue to assess the effectiveness of the Group's risk management and internal controls by considering reviews performed by the Audit Committee and executive management.

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 44 to 50.

For the year ended 31 December 2019, the fees paid/payable with respect of audit and non-audit services provided by the Company's external auditor are approximately RMB4.6 million. Details of the service fees are set out below:

Service Category	**Fees Paid/Payable RMB'000**
Audit Services	
Current year	4,270
Non-audit Services	310
Total	4,580

COMPANY SECRETARY

Ms. Ngai Kit Fong, a director of Tricor Services Limited, an 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 Executive 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 2019.

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 laq@ssdjz.com for any enquiries.

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

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. The Board aims to declare and recommend dividends which would amount in total to not less than 15% of the annual net profit of the Company to its shareholders according to HKFRSs, subject to a basket of conditions and factors. Such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividend in such manner and pay any dividend at all.

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: laq@ssdjz.com

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

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

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

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

GOING CONCERN

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

An analysis of the financial risk on liquidity of the Group is included in note 2.1.1 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 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Group include the retail of household appliance, mobile phones, computers, imported and general merchandise and provision of maintenance and installation services for household appliance in the People's Republic of China (the "**PRC**").

BUSINESS REVIEW

The business review of the Group during the year and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the section headed "Management Discussion and Analysis" section of this annual report. The financial risk management objectives and its valuation processes of the Group are set out in note 3 to the consolidated financial statements. 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 retail of household appliance, mobile phones, computers, imported and general merchandise and provision of maintenance and installation services for household appliance 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" and "Major Customers and Suppliers" in this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 51 to 155 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 55 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 47 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 2019, 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 7 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

Report of the Directors

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2019 are set out in note 32 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
Mr. Xu Xinying
Ms. Liu Simei
Mr. Sun Lejiu (appointed on 9 March 2020)
Mr. Xin Kexia

Non-executive Directors

Mr. Wang Cai (resigned on 31 January 2019)
Ms. Xu Honghong (appointed on 8 March 2019)

Independent Non-executive Directors

Mr. Tam Chun Chung (resigned on 30 January 2019)
Mr. Zhao Jinyong
Mr. Chen Rui
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 38 to 43 of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019 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 the property leasing contract with Mr. Cao Kuanping, a former executive director of the Company, was terminated on 19 January 2019, there is no longer any continuing connected transactions to be reviewed or disclosed.

RELATED PARTY TRANSACTIONS

The significant related party transactions are set out in note 47 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, the Company has disclosed such connected transactions in accordance with the disclosure requirements in Chapter 14A of the Listing Rules. Save as disclosed in this section, other related party transactions disclosed in note 47 to the consolidated financial statements are not considered as connected transactions, or are exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, 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%

(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.*(重慶聖商信息科技有限公司) 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 2019, 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 or underlying shares	Approximate percentage of interest in the corporation
Mogen Ltd. (Note 1)	The Company	Interest of controlled corporation	569,100,000 Shares (L)	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 Shares (L)	22.42%
Chongqing Saint Information Technology Co., Ltd. (重慶聖商信息科技有限公司) (Note 1)	The Company	Interest of controlled corporation	569,100,000 Shares (L)	22.42%
Baoshi (Tianjin) E-commerce Company Limited (寶世(天津)電子商務有限公司) (Note 2)	The Company	Interest of controlled corporation	261,900,000 Shares (L)	10.32%
Tianjin Bohai Commodity Exchange Corporation 天津渤海商品交易所股份有限公司 (Note 2)	The Company	Interest of controlled corporation	261,900,000 Shares (L)	10.32%
BOCE (Hong Kong) Co., Limited (Note 2)	The Company	Beneficial owner	261,900,000 Shares (L)	10.32%
China Ruike Investment & Development Co., Ltd. (中華瑞科投資發展有限公司) (Note 3)	The Company	Beneficial owner	239,103,625 Shares (L)	9.42%
Cao Kuanping (Note 3)	The Company	Interest of controlled corporation	239,103,625 Shares (L)	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 (L)	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.*(重慶聖商信息科技有限公司) 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. (中華瑞科投資發展有限公司) ("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 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 were outstanding options under the Share Option Scheme to subscribe for an aggregate of 1,644,000 Shares (after adjustment as a result of the share consolidation as set out in the section headed "Matters After the Reporting Period" of this annual report), representing 1.29% of the issued share capital of the Company share. No further option could be granted under the Share Option Scheme.

(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 and the Share Option Scheme has expired on 5 March 2020.

During the year ended 31 December 2019, no share options have been granted or exercised, 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 2019**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**As 31 December 2019**
Employees	14,380,000	—	—	—	14,380,000
Others (Note)	18,500,000	—	—	—	18,500,000
					32,880,000

Note:

Others are the former Directors and their associate.

The 100,000,000 share options granted on 14 May 2015, among which 21,500,000 share options were outstanding as at 31 December 2019, 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 43(a) to the audited consolidated financial statements of this annual report.

The 145,680,000 share options granted on 22 December 2015, among which 11,380,000 share options were outstanding as at 31 December 2019, 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 43(a) 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 2019, 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 2019 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 11.97% of the Group's total revenue and sales to the largest customer accounted for approximately 3.83% of the Group's total revenue for year 2019. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 36.43% of the Group's total purchases and purchases from the largest supplier accounted for approximately 9.16% of the Group's total purchases for year 2019.

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 37 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.

CHANGES IN DIRECTOR'S INFORMATION

Mr. Xu Xinying, an Executive Director, was appointed as Vice-chairman of the Company on 27 November 2019.

Ms. Liu Simei, an Executive Director, was appointed, and Mr. Xin Kexia has resigned, as Chief Executive Officer of the Company on 9 March 2020.

AUDIT COMMITTEE

The Audit Committee of the Company currently 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 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 was complied with the relevant 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 2019 and the auditor's report thereon.

AUDITOR

PricewaterhouseCoopers ("**PwC**"), the former auditor, retired upon expiration of its term of office at the 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 2019 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.

MATTERS AFTER THE REPORTING PERIOD

Share Consolidation and Change of Company Name

The Company passed an ordinary resolution at the extraordinary general meeting held on 3 January 2020 ("**EGM**") to implement a share consolidation (the "**Share Consolidation**") on the basis that every twenty issued and unissued shares of US$0.001 each in the share capital of the Company be consolidated into one consolidated share of US$0.02 each in the share capital of the Company. The board lot size for trading the consolidated shares remains as 2,000. The Share Consolidation became effective on 7 January 2020.

Meanwhile, at the EGM, the Company passed a special resolution to change the company name. The English name of the Company has been changed from "Huiyin Smart Community Co., Ltd." to "Qidian International Co., Ltd." and its dual foreign name in Chinese has been changed from "汇银智慧社区有限公司" to "奇点国际有限公司". The change of name became effective on 3 January 2020.

The stock short name of Shares for trading on the Stock Exchange has been changed from "HUIYIN SMARTCOM" to "QIDIAN INTL" in English and from "匯銀智慧社區" to "奇點國際" in Chinese. The aforesaid changes became effective on 17 February 2020.

For details of the Share Consolidation, change of company name and stock short name and effects of the change of company name, please refer to the announcements/circular dated 3 December 2019, 15 December 2019, 3 January 2020 and 11 February 2020 respectively.

Appointment of Executive Director

Mr. Sun Lejiu was appointed as an Executive Director on 9 March 2020.

COVID-19

The directors of the Company consider that the outbreak of COVID-19 has adversely affected and may continue to adversely affect the business performance and position of the Group, mainly due to travel restrictions and other precaution measures imposed by relevant local authorities that resulted in delays in commencement of work and delivery of products to customers. Meanwhile, due to the inherent nature and unpredictability of future development of the virus and market sentiment, the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. Accordingly, the financial impact of the COVID-19 outbreak on the Group cannot be reasonably estimated as this stage.

On behalf of the Board
Yuan Li
Chairman

Hong Kong, 17 April 2020

Directors' and Senior Management's Profile

(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	38	26 August 2017-Now: Executive Director; 29 December 2017-Now: Chairman of the Board
Ms. Liu Simei	Chief Executive Officer, Executive Director	49	29 December 2017-27 April 2018, and 3 May 2018-Now: Executive Director; 9 March 2020-Now: Chief Executive Officer
Mr. Xu Xinying	Executive Director, Vice-chairman	39	26 August 2017-29 December 2017: Non-executive Director; 29 December 2017-Now: Executive Director; 27 November 2019-Now: Vice-chairman
Mr. Sun Lejiu	Executive Director	42	9 March 2020
Mr. Xin Kexia	Executive Director	50	15 June 2018-Now
Mr. Wang Cai	Non-Executive Director	39	1 June 2017-30 January 2019
Ms. Xu Honghong	Non- Executive Director	34	8 March 2019-Now
Mr. Tam Chun Chung	Independent Non-Executive Director	48	5 March 2010-29 January 2019
Mr. Zhao Jinyong	Independent Non-Executive Director	48	29 December 2017-Now
Mr. Chen Rui	Independent Non-Executive Director	45	4 July 2018-Now
Mr. Fung Tak Choi	Independent Non-Executive Director	61	19 February 2019-Now

1. 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. She was appointed as Chief Executive Officer on 9 March 2020.

2. Mr. Xin Kexia was appointed as the Executive Director and Chief Executive Officer on 15 June 2018. He ceased to be the Chief Executive Officer on 9 March 2020.

3. 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.

4. 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.

5. 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.

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

7. 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.

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

9. Mr. Sun Lejiu was appointed as Executive Director on 9 March 2020.

(2) DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

(a) Executive Directors

Mr. Yuan Li (袁力先生), aged 38, 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 creative economics such as Internet, education, finance, creative economics such as and management. Mr. Yuan has been the chairman of the board of directors of Beijing Qi Dian New Technology Group Co., Ltd.* (北京奇點新科技集團有限公司) 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, 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 "Knowledge + Financial service provider" 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, a 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, the cochairman of the Zhongguancun Private Equity & Venture Capital Association in Beijing and a member of Beijing Chaoyang District Political Consultative Conference.

Ms. Liu Simei (劉思鎂女士), aged 49, was an Executive Director from 29 December 2017 to 27 April 2018 and re-appointed as an Executive Director on 3 May 2018. She has been appointed as chief executive officer of the Company with effect from 9 March 2020. She had also served as the chief financial officer of the Company from 15 November 2018 to 8 March 2020. 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.

Directors' and Senior Management's Profile

Mr. Xu Xinying (徐新穎先生), aged 39, 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 was appointed as vice-chairman of the Company on 27 November 2019. 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), Beijing Qi Dian New Technology Group Co., Ltd.* (北京奇點新科技集團有限公司) 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. Sun Lejiu (孫樂久先生), aged 42, was an Executive Director from 27 April 2018 to 3 May 2018 and was re-appointed as an Executive Director with effect from 9 March 2020. He served as regional general manager in HGTECH (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 vice president of Beijing Qidian New Technology Group Co., Ltd.* (北京奇點新科技集團有限公司) since May 2016 to date. He has been a director of 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 2017 and senior vice-president of Yangzhou Huiyin Technology Group Co., Ltd.* (揚州匯銀科技集團有限公司), a wholly owned subsidiary of the Company, since April 2018. Mr. Sun graduated from Shenyang Jianzhu University (formerly known as Shenyang Institute of Architecture and Civil Engineering) in July 2000 with a bachelor's degree in mechanical process and manufacturing.

Mr. Xin Kexia (辛克俠先生), aged 50, was appointed as the Executive Director and chief executive officer of the Company on 15 June 2018. He ceased to be the chief executive officer on 9 March 2020. 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 was 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 Directors

Mr. Wang Cai (王偲先生), aged 39, 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 2018. 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. Wang resigned as the Non-executive Director of the Company on 31 January 2019.

Ms. Xu Honghong (徐紅紅女士), aged 34, 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 Directors

Mr. Tam Chun Chung (譚振忠先生), aged 48, was appointed as an Independent Non-Executive Director of the Company on 5 March 2010. 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. Tam resigned as the Independent Non-executive Director, the chairman of the Audit Committee and the Independent Investigation Committee on 30 January 2019.

Directors' and Senior Management's Profile

Mr. Zhao Jinyong (趙金勇先生), aged 48, 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. He was appointed as the Chairman of the Audit Committee of the Company on 30 January 2019. Mr. Zhao has 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. Chen Rui (陳睿先生), aged 45, 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 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 61, was appointed as the Independent Non-executive Director, member of Audit Committee and Nomination 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

Ms. Li Jing (李晶女士), aged 49, 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 42, 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 43, 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 60, 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.

Mr. Dong Jinming (董金明先生), aged 41, has been appointed as the chief financial officer of the Group with effect from 9 March 2020. Mr. Dong worked as finance manager of China Shenhua Energy Company Limited (a company listed on the Shanghai Stock Exchange and the Stock Exchange, stock codes: 601088 (SH) and 1088 (HK)) . He worked as senior auditor at Ernst & Young Hua Ming LLP and as senior auditor at Deloitte Touche Tohmatsu Certified Public Accountants LLP. He worked as chief financial officer of CIFI Holdings (Group) Co. Ltd. (a company listed on the Stock Exchange, stock code: 0884). He worked as chief controller and secretary of the board of directors at Vimicro International Corporation (a company formerly listed on the Nasdaq). He also worked as chief financial officer of Elion Resources Group Ltd* (億利資源集團有限公司). He has more than 19 years of experience in financial management and auditing.

Independent Auditor's Report

TO THE SHAREHOLDERS OF QIDIAN INTERNATIONAL CO., LTD.
(Formerly Known as Huiyin Smart Community Co. Ltd.)
(Incorporated in Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Qidian International Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 155, which comprise the consolidated statement of financial position as at 31 December 2019, and 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 on the corresponding figures 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 2019, 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

Our audit report dated 14 June 2019 on the Group's consolidated financial statements for the year ended 31 December 2018 was modified as the predecessor auditor expressed a disclaimer of opinion on the Group's consolidated financial statements for the year ended 31 December 2017. Since opening balances affect the determination of the financial performance and cash flows for the year ended 31 December 2018, in the absence of sufficient appropriate audit evidence, we were unable to determine whether the reversal of impairment losses of RMB18,589,000 on the prepayments to three suppliers for the year ended 31 December 2018 have been properly accounted for and disclosed in the consolidated financial statements and we were unable to satisfy ourselves that the prepayments of RMB35,218,000 from these suppliers as at 1 January 2018 were free from material misstatement. Therefore, we are unable to determine whether any adjustment might have been necessary in respect of the financial performance reported in the consolidated income statement and consolidated statement of other comprehensive income and the net cash flow from operating activities reported in the consolidated statement of cash flows of the Group for the year ended 31 December 2018. Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 was modified accordingly. Our audit opinion on the consolidated financial statements of the Group for the current year ended 31 December 2019 is also modified because of the possible effect of the above matter on the comparability of the current year's figures and the corresponding figures.

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, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

– Revenue recognition

– Impairment assessment of property, plant and equipment and right-of-use assets

– 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 included the following:
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.	• Evaluating the design, implementation and operating effectiveness of key controls on the recognition of revenue;
The Group's revenue for the year ended 31 December 2019 amounted to approximately RMB470,731,000 and the accounting policy on revenue recognition is disclosed in Note 2.25 to the consolidated financial statements.	• Reviewing sales contracts entered into with customers on a sample basis to obtain an understanding of contract terms, in particular, those relevant to the timing and amount of revenue recognised with reference to the Group's revenue recognition accounting policies; • Performing analytical review on the monthly sales amounts with reference to the sales volume for current and comparative period.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition (Continued)	
	• Sample testing revenue by examining the relevant supporting documents, including goods delivery notes, daily sales reports and customers' payment records; • Sending confirmations to customers to confirm balance of trade receivables and sales transactions on a sample basis; • Performing company search of the corporate customers and checking customers' registered information on the official website on a sample basis to confirm the existence of the customers and evaluate the background of the customers and business relationships between customers and the Group; • Checking sale returns on a sample basis by agreeing the quantity, amount and period of sale returns with appropriate approval procedures; and • Checking sale transactions that took place shortly 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 right-of-use assets At 31 December 2019, the carrying amounts of the Group's property, plant and equipment and right-of-use assets were RMB137,650,000 and RMB89,207,000 respectively, represented approximately 47.7% of the total assets of the Group. 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 appliance in the People's Republic of China. Management determined the recoverable amounts of property, plant and equipment and right-of-use assets with assistance from the independent external professional valuer. Given that 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 right-of-use assets to determine their recoverable amounts based on the fair value less costs to disposal of the relevant property, plant and equipment and right-of-use assets. We identified the impairment assessment of property, plant and equipment and right-of-use assets as a key audit matter due to the significance of the balance to the consolidated financial statements combined with the significant judgements and estimations involved in the determination of the recoverable amounts. The accounting policies and disclosures in relation to items of right-of-use assets and property, plant and equipment and the impairment assessment of property, plant and equipment and right-of-use assets are included in notes 2.9 and 2.8, 2.12 and 7-8 to the consolidated financial statements.	Our audit procedures in relation to the management's impairment assessment of property, plant and equipment and right-of-use assets included the following: • Discussing and evaluating management's identification of indicators of potential impairment; • Obtaining and reviewing the valuation reports prepared by the external valuer engaged by the Group; • Assessing the external valuer's qualifications, experience and expertise and considered its objectivity and independence; • Involving our internal valuation expert to assess the valuation methodologies applied, appropriateness of key assumptions, inputs and estimates used in the valuation such as market comparables, and compared them to market information and our industry knowledge; and • Checking the arithmetical accuracy of the fair value less to costs to disposal calculations.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
At 31 December 2019, the carrying amount of the Group's inventories was RMB77,251,000, represented 37.2% of the total current assets of the Group. We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements and the significant judgements and estimates involved in the determination of the net realisable value. The Group's principal activities are in retail of household appliance. 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 2.14, 4 and 15 to the consolidated financial statements.	Our audit procedures in relation to assessing the appropriateness of the valuations of the inventories included: • Obtaining an understanding of the Group's allowance policy on inventories and evaluating management's process in identifying slow-moving inventories and determining the allowance for inventories; • Assessing the reasonableness of the allowance for inventories with reference to the net realisable value of inventories by verifying, on a sample basis, to the historical and latest available sales information of similar inventories taking into account of the current market conditions and future sales plan; • Testing the accuracy of ageing analysis of inventories, on a sample basis, to the purchase invoices and goods received notes; and • Testing the subsequent sales of inventories, on a sample basis, to the sales invoices.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Independent Auditor's Report

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.

The engagement partner on the audit resulting in this independent auditor's report is Chan Wai Dune, Charles.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 17 April 2020

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**—**	32,157
Property, plant and equipment	7	**137,650**	193,776
Right-of-use assets	8	**89,207**	—
Investment properties	9	**39,022**	5,066
Intangible assets	10	**1,340**	297
Interest in joint venture	11	**—**	—
Interest in associates	12	**—**	—
Equity investment designated at fair value through other comprehensive income	13	**600**	600
Total non-current assets		**267,819**	231,896
Current assets			
Inventories	15	**77,251**	157,530
Trade and bills receivables	16	**8,878**	23,989
Prepayments, deposits and other receivables	17	**74,794**	101,335
Restricted bank deposits	18	**23,242**	39,060
Cash and cash equivalents	19	**23,677**	48,075
Total current assets		**207,842**	369,989
Total assets		**475,661**	601,885
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	20	**16,766**	16,766
Reserves	21	**(319,289)**	(210,452)
		(302,523)	(193,686)
Non-controlling interests		**22,725**	22,787
Total equity		**(279,798)**	(170,899)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	25	**59,646**	356,134
Lease liabilities	26	**50,028**	—
Provision for reinstatement costs	31	**620**	—
Total non-current liabilities		**110,294**	356,134
Current liabilities			
Trade and bills payables	22	**131,125**	161,654
Accruals and other payables	23	**44,257**	97,456
Contract liabilities	24	**29,350**	39,780
Borrowings	25	**363,957**	38,000
Lease liabilities	26	**20,157**	—
Current income tax liabilities		**7**	22
Derivative financial instruments	27	**—**	26,178
Other current liabilities	28	**53,560**	53,560
Financial liabilities at fair value through profits or loss	29	**—**	—
Provision for litigations	30	**2,566**	—
Provision for reinstatement costs	31	**186**	—
Total current liabilities		**645,165**	416,650
Total liabilities		**755,459**	772,784
Total equity and liabilities		**475,661**	601,885

The notes on pages 58 to 155 are an integral part of these financial statements.

Yuan Li
Director

Liu Simei
Director

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	5	**470,731**	920,807
Cost of sales and services	36	**(432,017)**	(897,603)
Gross profit		**38,714**	23,204
Other income	33	**8,983**	15,523
Other net gain	34	**5,298**	7,942
(Impairment losses)/reversal of impairment losses on trade and other receivables		**(5,752)**	5,300
Selling and marketing expenses		**(77,382)**	(130,328)
Administrative expenses		**(64,648)**	(65,962)
Operating loss		**(94,787)**	(144,321)
Finance income	39	**368**	2,270
Finance costs	39	**(14,495)**	(23,935)
Net finance costs	39	**(14,127)**	(21,665)
Share of loss of a joint venture	11	**—**	—
Share of loss of an associate	12	**—**	—
Loss before income tax	36	**(108,914)**	(165,986)
Income tax credit	40	**4**	174
Loss for the year		**(108,910)**	(165,812)
Attributable to:			
– Equity holders of the Company		**(108,837)**	(160,731)
– Non-controlling interests		**(73)**	(5,081)
		(108,910)	(165,812)
			(Restated)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB per share)			
– Basic	41	**(0.858)**	(1.291)
– Diluted	41	**(0.858)**	(1.291)

The notes on pages 58 to 155 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Loss for the year	**(108,910)**	(165,812)
Other comprehensive income or loss for the year	**—**	—
Total comprehensive loss for the year	**(108,910)**	(165,812)
Attributable to:		
– Equity holders of the Company	**(108,837)**	(160,731)
– Non-controlling interest	**(73)**	(5,081)
	(108,910)	(165,812)

The notes on pages 58 to 155 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital RMB'000 (Note 20)	Share premium RMB'000 (Note 21)	Statutory reserves RMB'000 (Note 21)	Other reserves RMB'000 (Note 21)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the Company							
Balance at 1 January 2018		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	3,027	189,887	–	–	–	192,914	–	192,914
Disposal of subsidiaries	35(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)
Balance at 1 January 2019		**16,766**	**1,803,618**	**28,007**	**55,395**	**(2,097,472)**	**(193,686)**	**22,787**	**(170,899)**
Changes in equity for 2019									
Loss for the year		**–**	**–**	**–**	**–**	**(108,837)**	**(108,837)**	**(73)**	**(108,910)**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive loss		**–**	**–**	**–**	**–**	**(108,837)**	**(108,837)**	**(73)**	**(108,910)**
Deregistration of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Balance at 31 December 2019		**16,766**	**1,803,618**	**28,007**	**55,395**	**(2,206,309)**	**(302,523)**	**22,725**	**(279,798)**

The notes on pages 58 to 155 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Operating activities			
Loss before income tax		**(108,914)**	(165,986)
Adjustments for:			
– Net foreign exchange losses		**626**	3,209
– Amortisation of land use rights	6	**—**	797
– Amortisation of righ-of-use assets	8	**22,779**	—
– Depreciation of property, plant and equipment	7	**6,272**	10,443
– Depreciation of investment properties	9	**692**	169
– Amortisation of intangible assets	10	**154**	865
– Impairment loss on property, plant and equipment	7	**259**	1,500
– Gain on fair value change of derivative financial Instrument	27	**—**	(1,397)
– Change in fair value of financial liabilities at fair value through profit or loss	29	**(18,683)**	—
– Losses on disposal of property, plant and equipment and righ-of-use assets	34	**16,262**	757
– Finance income	39	**(368)**	(2,270)
– Accrued default penalty on advance from equity investor of an associate	23(d)	**605**	585
– Interest expenses	39	**32,231**	20,728
– Gains on disposal of subsidiaries		**—**	(8,054)
– Reversal of write down of inventories	15	**(1,505)**	(15,737)
– Impairment losses on trade receivables	16	**1,826**	1,154
– Impairment loss on other receivables	17	**3,926**	4,798
– Reversal of impairment losses on Suohai, Zhipu and Mei Zanying	17	**—**	(18,589)
– Impairment losses on prepayments to other suppliers	17	**9,822**	1,019
– Provision of litigations	30	**2,566**	—
– Write back of long outstanding accrued housing provident fund	23(a)	**(19,987)**	—
– Write back of long outstanding trade and other payable	22	**(3,377)**	—
– Waiver of interest payment by Mr. Wu	25(c)	**(18,917)**	—
– Gains on deregistration of subsidiaries	34	**(105)**	—
Operating loss before working capital changes		**(73,836)**	(166,009)
Changes in working capital:			
– Decrease/ (increase) in inventories		**81,784**	114,516
– Decrease in trade and bills receivables		**13,285**	13,791
– Decrease in prepayments, deposits and other receivables		**4,697**	42,782
– Decrease in pledged bank deposits and frozen bank deposits		**15,818**	218,900
– Decrease in trade and bills payables		**(27,149)**	(502,493)
– Increase/ (decrease) in accruals and other payables		**(2,384)**	9,195
– Decrease in contract liabilities		**(10,430)**	(29,036)
Cash generated from/(used in)operations		**1,785**	(298,354)
Interest paid		**(3,861)**	(11,447)
Income tax paid		**(11)**	(675)
Net cash used in operating activities		**(2,087)**	(310,476)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Investing activities:			
Proceeds from disposal of subsidiary, net of cash disposed	35	**—**	(2,805)
Purchase of property, plant and equipment		**(375)**	(18,204)
Purchase of intangible assets	10	**(1,197)**	(311)
Purchase of land use rights		**—**	(1,500)
Proceeds from disposal of property, plant and equipment and right-of-use assets		**11,959**	1,350
Payment for purchase of equity investment designated at fair value through other comprehensive income		**—**	(600)
Settlement of financial liabilities at fair value through profit or loss	29	**(12,000)**	—
Interest received	39	**368**	3,028
Net cash outflows upon deregistration of subsidiaries, net of cash		**(47)**	—
Net cash used in investing activities		**(1,292)**	(19,042)
Financing activities:			
Repayment of advance from a former director		**—**	(25,000)
Repayments of advance from equity investor of an associate		**—**	(24,485)
Proceeds from bank borrowings		**—**	38,000
Advance from third parties and related parties and other borrowings		**149,793**	402,410
Repayments of advance from a third party and other borrowings		**—**	(150,400)
Repayment of bank borrowings		**(38,000)**	(131,289)
Repayments of advance from a third party	23	**(25,410)**	—
Repayments of other borrowings		**(88,272)**	—
Release of restricted bank deposits pledged for bank borrowings		**—**	20,390
Proceeds from issuance of ordinary shares	20	**—**	192,914
Consideration paid to a former non-controlling interest holder of a subsidiary		**—**	(2,000)
Capital element of lease rentals paid	26	**(13,591)**	—
Interest elements on finance lease rental payments	26	**(6,243)**	—
Net cash generated from/(used in) financing activities		**(21,723)**	320,540
Decrease in cash and cash equivalents		**(25,102)**	(8,978)
Cash and cash equivalents at beginning of the year	19	**48,075**	56,496
Exchange differences on cash and cash equivalents		**704**	557
Cash and cash equivalents at end of the year	19	**23,677**	48,075

The notes on pages 58 to 155 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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. On 3 January 2020, the Company changed its name from Huiyin Smart Community Co., Ltd. to Qidian International Co., Ltd.

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, mobile phones, computers, imported and general merchandise and provision of maintenance and installation services for household appliance 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 and resumed on 11 November 2019.

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 2019 comprise 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 4 below.

2.1.1 Going Concern Basis

The Group incurred a loss of RMB108,910,000 and, as of that date, the Group's current liabilities exceeded its current assets by RMB437,323,000 and the Group's total liabilities exceeded its total assets by RMB279,798,000.

In preparing these consolidated financial statements, the Directors have 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 ability of the Group to continue as a going concern is dependent on the ongoing availability of finance to the Group, including the financial support from the parent company of a substantial shareholder of the Company and loans from a lender, Mr. Wu Jipeng. Notwithstanding the above, the Directors considered that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

The Directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the foreseeable future after taking into consideration of the following:

a) On 24 December 2019, Mr. Wu Jipeng (an independent third party) wrote a letter to the Company pursuant to which the Group was allowed not to make repayment of outstanding loans and accrued interest of RMB314,924,000 as at 31 December 2019. The original due dates for repayment of these outstanding loans and accrued interest are between March 2020 and February 2022. Under the letter, the repayment date is not earlier than 30 April 2022.

b) On 17 April 2020, the Company obtained a financial support from Chongqing Saint Information Technology Co., Ltd.* (重慶聖商信息科技有限公司) ("Chongqing Saint"), the parent company of a substantial shareholder, (Noble Trade International Holdings Limited) of the Company, under which Chongqing Saint has given an irrevocable undertaking that it would provide financial support to the Group to meet its financial obligations for a maximum amount of RMB230 million for a period of 24 months from the date of approval of these consolidated financial statements.

c) Guangdong Shengrong Financial Services Holding Co.* (廣東聖融金服控股有限公司), Beijing New Qidian Technology Group Co., Ltd.* (北京奇點新科技集團有限公司) (previously known as Saint (Beijing) Holding Group Co., Ltd.* (聖商(北京)控股集團有限公司)) and HK Saint Next Investment Limited agreed to extend the outstanding loans and interest of RMB83,280,000 which are due for repayment between May and October 2020 for a further period of two years.

* for identification purpose only

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

2.1 Basis of preparation *(Continued)*

2.1.1 Going Concern Basis *(Continued)*

d) On 25 March 2020, the Group entered into two loan agreements with Chongqing Saint pursuant to which the Group obtained loans of RMB50,000,000 at a fixed interest rate of 6.5% per annum for a period of two years. The loans are due for repayment on 24 March 2022.

Based on the Group's cash flow projections, which cover a period of twelve months from the date of the approval of these consolidated financial statements and taken into account the available financial resources, the Directors of the Company are of the opinion that, 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.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

2.1.2 New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("**HKAS 17**"), and the related interpretations.

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

2.1 Basis of preparation *(Continued)*

2.1.2 New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

(i) relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iv) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment;

(v) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the relevant group entities range from 6.6% to 9.5%.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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

2.1 Basis of preparation *(Continued)*

2.1.2 New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

As a lessee (Continued)

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	**116,080**
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(1,269)**
Less: adjustment as a results of a different treatment on commitments relating to termination options of lease contracts	**(11,253)**
	103,558
Less: total future interest expenses	**(19,782)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and lease liabilities as at 1 January 2019	**83,776**
Analysed as	
Current	**14,916**
Non-current	**68,860**
	83,776

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

2.1 Basis of preparation *(Continued)*

2.1.2 New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	**83,776**
Reclassified from land use rights (note)	**32,157**
Reclassified from prepaid rentals	**8,517**
	124,450
By class:	
Properties	**92,293**
Leasehold land	**32,157**
	124,450

Note:

Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the land use rights amounting to RMB32,157,000 were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

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

2.1 Basis of preparation *(Continued)*

2.1.2 New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 16, Leases (Continued)

The following adjustments were made to the amounts recognised in the consolidated of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	Carrying amount as previously reported at 31 December 2018 RMB'000	Reclassification RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount under HKFRS 16 at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:					
Land use rights	(i)	32,157	(32,157)	—	—
Right-of-use assets		—	40,674	83,776	124,450
Total non-current assets		231,896	8,517	83,776	324,189
Prepayments, deposits and other receivables		101,335	(8.517)	—	92,818
Total current assets		369,989	(8.517)	—	361,472
Total assets		601,885	—	83,776	685,661
Lease liabilities (non-current)	(ii)	—	—	14,916	14,916
Total Current liabilities		416,650	—	14,916	431,566
Lease liabilities (non-current)	(ii)	—	—	68,860	68,860
Total non-current liabilities		356,134	—	68,860	424,994
Total liabilities		772,784	—	83,776	856,560

(i) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the land use rights amounting to RMB32,157,000 – was reclassified to right-of-use assets.

(ii) Upon application of HKFRS 16, the Group recognised and measured the lease liabilities at the present value, using the incremental borrowing rate, of lease payments that were unpaid after excluding short-term leases. In addition, the Group reclassified the lease liabilities as current and non-current liabilities respectively at 1 January 2019 based on settlement term.

Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported loss for the year in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 26). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

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

2.1 Basis of preparation *(Continued)*

2.1.2 New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]
Revised Conceptual Framework	Amendments to References to the Conceptual Framework in HKFRS Standards[4]

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

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRS mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2.13), 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)*

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.

2.5 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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.

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 Right-of-use assets

The right-of-use assets recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The cost less accumulated impairment of right-of-use assets are depreciated on a straight-line basis over the lease term.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

2.10 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.

2.11 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.

2.12 Credit losses and impairment of assets

(i) Credit losses from financial instruments

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.

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

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

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

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.

(ii) Credit losses from financial instruments

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.

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

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

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

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 2.25(e) 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.

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.

2.13 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)*

2.14 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.

2.15 Contract liabilities

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.

2.16 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 2.12).

2.17 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 2.12).

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

2.18 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.

2.19 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)*

2.20 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.

2.21 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.

2.22 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)*

2.22 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)*

2.23 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)*

2.24 Provision and contingent liability

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is 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.

2.25 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 2.15). 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)*

2.25 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 2.15).

(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 2.15).

(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)*

2.26 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.

2.27 Leases

At inception of a contract, the Group assesses whether, the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

A right-of-use asset is an asset that represents a lessee's right to use an underlying asset for the lease term.

As a leasee

(a) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitialised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2.9 and 2.12).

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

2.27 Leases *(Continued)*

As a leasee *(Continued)*

(a) Policy applicable from 1 January 2019 *(Continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the statement of financial position.

(b) Policy applicable prior to 1 January 2019

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.

As a lessor

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

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

2.28 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.

2.29 Right-of-return assets

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

2.30 Refund liabilities

A refund liabiliting is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the cusomter. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the and of each reporting period.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at fair value		
– Equity investment designated at fair value through other comprehensive income	**600**	600
Financial assets at amortised cost		
– Trade and bill receivables	**8,878**	23,989
– Prepayments, other receivables and other assets		
– Deposits	**714**	2,323
– Interest receivable from bank	**—**	129
– Amount paid on behalf of certain suppliers	**102**	674
– Staff advances	**685**	1,411
– Others	**2,139**	7,522
Restricted bank deposits	**23,242**	39,060
Cash and bank deposits	**23,677**	48,075
	59,437	123,183
	60,037	123,783

	2019 RMB'000	2018 RMB'000
Financial liabilities		
Financial liabilities at fair value		
– Fair value through profit or loss Derivative financial instruments	**—**	26,178
Financial liabilities at amortised cost		
– Bank borrowings	**—**	38,000
– Other borrowings	**415,576**	348,518
– Bonds payables	**8,027**	7,616
– Trade and bills payable	**131,125**	161,654
– Accruals and other payable	**43,015**	96,026
– Other current liabilities	**53,560**	53,560
– Lease liabilities	**70,185**	—
	721,488	705,374
	721,488	731,552

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 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 years ended 31 December 2019 and 2018.

At 31 December 2019, 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 2019		31 December 2018	
	HK Dollar RMB'000	**US Dollar RMB'000**	HK Dollar RMB'000	US Dollar RMB'000
Cash and bank balances	**617**	**275**	26,679	239
Accruals and other payables	**(11,914)**	**5,384**	(25,410)	—
Borrowings	**(8,027)**	**(29,525)**	(7,616)	—
	(19,324)	**(23,866)**	(6,347)	239

At 31 December 2019, if RMB had weakened/strengthened by 5% (2018: 5%), against HK Dollar with all other variables held constant, pre-tax loss for the year would have been approximately (RMB966,000) higher/lower (2018: pre-tax loss for the year (RMB317,000), 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.

At 31 December 2019, if RMB had weakened/strengthened by 5% (2018: 5%), against US dollar with all other variables held constant, pre-tax loss for the year would have been approximately RMB1,193,000 higher/lower (2018: pre-tax loss for the year: (RMB12,000), (lower/higher), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash and bank balances, accruals and other payables 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. At 31 December 2019, borrowings at fixed rates comprise bank borrowings of RMB Nil (2018: RMB38,000,000) and other borrowings/advances of RMB403,021,000 (2018: RMB369,525,000). 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.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 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) Bank balances

The credit risk on bank balance is limited because the counterparties are banks with high credit ratings. Accordingly, no loss allowance was provided in respect of bank balances at 31 December 2019.

(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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 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 2019:

31 December 2019	Current (not past due) RMB'000	1-8 months past due RMB'000	9-20 months past due RMB'000	21 months or over past due RMB'000	Total RMB'000
Provision on individual basis					
Lifetime expected credit loss rate	100%	100%	100%	100%	
Gross carrying amount of certain debtor(s)	920	154	1,916	12,347	15,337
Loss allowance of certain debtor(s)	(920)	(154)	(1,916)	(12,347)	(15,337)
Provision on collective basis					
Lifetime expected credit loss rate	0.64%	1.65%	38.5%	87.9%	
Gross carrying amount excluding certain debtor(s)	2,026	5,741	1,373	1,434	10,574
Loss allowance excluding certain debtor(s)	(13)	(95)	(529)	(1,259)	(1,896)
Total gross amount	2,946	5,895	3,289	13,781	25,911
Total loss allowance	(933)	(249)	(2,445)	(13,606)	(17,233)
Total net amount	2,013	5,646	844	175	8,678

31 December 2018	Current (not past due) RMB'000	1-8 months past due RMB'000	9-20 months past due RMB'000	21 months or over past due RMB'000	Total RMB'000
Provision on collective basis					
Lifetime expected credit loss rate	5.0%	5.0%	47.0%	99.3%	
Gross carrying amount excluding certain debtor(s)	17,911	4,786	2,745	13,064	38,506
Loss allowance excluding certain debtor(s)	(895)	(239)	(1,290)	(12,983)	(15,407)
Total net amount	17,016	4,547	1,455	81	23,099

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(I) *(Continued)*

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.

(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.

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

	Lifetime ECL (Credit-impaired)	
	2019	2018
	RMB'000	RMB'000
At 1 January	**15,407**	14,253
Impairment losses recognised in profit or loss during the year	**1,826**	1,154
At 31 December	**17,233**	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.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 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

At 31 December 2019, 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:

	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**
At l January 2018	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)
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.

	Financial assets at amortised cost as included in "Prepayments, deposits and other receivables"
Impairment loss allowance provision movement	**Other receivables RMB'000**
At 1 January 2019	6,388
Amounts written off against other receivables	(500)
Impairment loss on other receivables	3,721
At 31 December 2019	9,609

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 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 2019.

(a) Other receivables – 12 month ECL

	Expected loss rate		Gross carrying amount		Loss allowance	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Within 1 year (Medium risk)	**13.90%**	20.97%	**3,332**	12,059	**463**	2,530
Over 1 year (Medium risk)	**92.26%**	60.39%	**9,913**	6,388	**9,146**	3,858
			13,245	18,447	**9,609**	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.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(III) 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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 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 or demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying Amount RMB'000
As at 31 December 2019						
Non-derivative financial liabilities						
Other borrowings	**375,748**	**52,840**	**3,414**	**–**	**432,002**	**415,576**
Bonds payables	**537**	**537**	**9,687**	**–**	**10,761**	**8,027**
Trade and bills payables	**131,125**	**–**	**–**	**–**	**131,125**	**131,125**
Accruals and other payables	**43,015**	**–**	**–**	**–**	**43,015**	**43,015**
Other current liabilities	**53,560**	**–**	**–**	**–**	**53,560**	**53,560**
Lease liabilities	**25,073**	**21,697**	**29,251**	**7,703**	**83,724**	**70,185**
Subtotal	**629,058**	**75,074**	**42,352**	**7,703**	**754,187**	**721,488**
Derivative financial instruments						
Derivative in the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd.	**–**	**–**	**–**	**–**	**–**	**–**
	629,058	**75,074**	**42,352**	**7,703**	**754,187**	**721,488**
As at 31 December 2018						
Non-derivative financial liabilities						
Other borrowings	3,927	371,976	–	–	375,903	348,518
Bank borrowings	38,952	–	–	–	38,952	38,000
Bonds payables	523	523	9,950	–	10,996	7,616
Trade and bills payables	161,654	–	–	–	161,654	161,654
Accruals and other payables	96,026	–	–	–	96,026	96,026
Other current liabilities	53,560	–	–	–	53,560	53,560
Subtotal	354,642	372,499	9,950	–	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
	380,820	372,499	9,950	–	763,269	731,552

Note:

The Group has initially applied HKFRS16 at 1 January 2019 using the modified retrospective approach. Under the approach comparative information is not restated.

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2019 and 2018 without taking into account of future borrowings.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

At 31 December 2019, the capital structure of the Group consists of cash and cash equivalents of RMB23,677,000 (2018: RMB48,075,000) and negative balance of equity attributable to owners of the Company of RMB302,523,000 (2018: RMB193,686,000).

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.

3.3 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. and financial liabilities at fair value through profit or loss. 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.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 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 31 December 2019 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	600 (2018: 600)	Level 3	Discounted cash flow approach of the income method; growth rate and discount rate	Growth rate: 5% (2018: 5%) Discount rate: 8% (2018: 8%)	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.	— (2018: 26,178)	Level 3	Binomial Tree Model; the key inputs are volatility, and risk free rate	Volatility: 2019: N/A (2018: 60%) Risk free rate: — (2018: 2.8%)	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
Financial liabilities at fair value through profit or loss	— (2018: N/A)	Level 3	Discounted cash flow approach on expected value to be settled in the claim against the Group by Ruihua Enterprises	Discount rate 10% (2018: N/A) Fair value of the Cao Kuanping's properties seized by the PRC court (2018: N/A)	The higher the discount rate, the lower the fair value of the financial liabilities The higher the fair value of the seized properties, the lower the fair value of the financial liabilities

There were no transfers between Level 1, 2 and 3 during the year (2018: Nil).

Included in other net gain as set out in note 34, an unrealised gain on change in fair value of the derivative financial instrument of approximately RMB Nil (2018: RMB1,397,000) was recognised in profit or loss during the year ended 31 December 2019. Details of which are set out in note 27.

Included in other net gain as set out in note 34, a change in fair value of financial liabilities at fair value through profit or loss of RMB18,683,000 (2018: RMB Nil) was recognised in profit or loss during the year ended 31 December 2019. Details of which are set out in note 29.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value measurement *(Continued)*

(iii) Reconciliation of Level 3 fair value measurements

2019

	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**	**Financial liabilities at fair value through profit or loss RMB'000**	**Total RMB'000**
At 1 January 2019	**600**	**(26,178)**	**—**	**(25,578)**
Reclassification during the year	**—**	**26,178**	**(26,178)**	**—**
Reclassified from advances from an equity investor of an associate	**—**	**—**	**(4,505)**	**(4,505)**
Settlement paid	**—**	**—**	**12,000**	**12,000**
Fair value change recognised in profit or loss	**—**	**—**	**18,683**	**18,683**
At 31 December 2019	**600**	**—**	**—**	**600**

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	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2018	—	(27,575)	—	(27,575)
Purchase of investment during the year	600	—	—	600
Fair value change recognised in profit or loss	—	1,397	—	1,397
At 31 December 2018	600	(26,178)	—	(25,578)

(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 2019 and 2018.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(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 ended 31 December 2019, the Group made impairment losses of approximately RMB259,000 (2018: RMB1,500,000) on property, plant and equipment (Note 7).

In addition, the Group made impairment losses of approximately RMB9,822,000 (2018: RMB1,019,000) on prepayments to other suppliers during the year ended 31 December 2019 (Note 17).

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

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

All the Group's investment properties are accounted for using the cost model. For disclosure purpose, the Group determines the fair value of its investment properties 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 3.3 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 financial instruments.

(f) Provision for expected credit loss ("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 deposits and other receivables with significant balances and credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL are disclosed in note 3.1 to the consolidated financial statements.

(g) Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

5. REVENUE AND SEGMENT INFORMATION

(i) Revenue

The principal activities of the Group are mainly engaged in the retail of household appliance, mobile phones, computers, imported and general merchandise and provision of maintenance and installation services for household appliance in the PRC.

Disaggregation of revenue from contracts with customers

	2019	2018
	RMB'000	RMB'000
Types of goods and services		
Sales of goods		
Traditional business – sales of household appliances	**405,204**	849,132
– sales of mobile phones and computers	**56,348**	—
New retail business – sales of import and general merchandise	**—**	64,216
	461,552	913,348
Rendering of services		
– Maintenance and installation services	**9,179**	7,459
Total revenue	**470,731**	920,807

	2019	2018
	RMB'000	RMB'000
Timing of revenue recognition		
A point in time	**470,731**	920,807

Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of goods

The performance obligation is satisfied upon delivery of goods and payment is made in cash, by credit cards, by means of electronic payments or settled indirectly through retail malls, except for corporate clients, where payment is due within 30 to 90 days from delivery.

Rendering of services

The performance obligation is satisfied when the maintenance and installation of household appliance is completed and payment is due immediately and made in cash, by credit cards and by means of electronic payments.

(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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Segment Information *(Continued)*

The Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Traditional business, including the results from sales of household appliance, mobile phones and computers.
- New retail business, including the results from sales of imported and general merchandise. The Group scaled down the new business during the year.
- All other segments including 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 2019 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	461,552	—	9,179	—	470,731
Inter-segment revenue	—	—	—	—	—
Revenue from external customers	461,552	—	9,179	—	470,731
Operating loss	(74,118)	(495)	(905)	(19,269)	(94,787)
Net finance costs					(14,127)
Share of loss of a joint venture					—
Share of loss of associates					—
Loss before income tax					(108,914)
Income tax credit					4
Loss for the year					(108,910)
Other segment items are as follows:					
Capital expenditure	1,568	—	4	—	1,572
Addition of other non-current asset	—	—	—	—	—
Depreciation charge	6,943	12	9	—	6,964
Amortisation charge	22,670	—	255	8	22,933
Reversal of write down of inventories	(1,505)	—	—	—	(1,505)
Impairment loss on property, plant and equipment	240	19	—	—	259
Impairment loss on trade receivables	1,559	214	53	—	1,826
Impairment loss on other receivables	3,644	223	59	—	3,926
Loss on disposal of property, plant and equipment and right-of-use assets	16,256	6	—	—	16,262
Impairment loss on prepayments to other suppliers/(Reversal of impairment loss)	9,866	(42)	(2)	—	9,822

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Segment Information *(Continued)*

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)
Net finance costs					(21,665)
Share of loss of a joint venture					—
Share of loss of associates					—
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

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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Segment Information *(Continued)*

Segment assets and liabilities as at 31 December 2019 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	**465,899**	**—**	**4,702**	**470,601**
Unallocated assets				**5,060**
Total assets				**475,661**
Segment liabilities	**685,559**	**12,323**	**2,112**	**699,994**
Unallocated liabilities				**55,465**
Total liabilities				**755,459**

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 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 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.

6. LAND USE RIGHTS

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

	2019 RMB'000	2018 RMB'000
Net carrying value at 1 January	**32,157**	27,740
Effect of adoption of HKFRS16	**(32,157)**	—
At 1 January, as restated	**—**	27,740
Additions	**—**	5,214
Amortisation	**—**	(797)
At 31 December	**—**	32,157
Cost	**—**	50,703
Accumulated depreciation	**—**	(7,143)
Accumulated impairment	**—**	(11,403)
net carrying amount	**—**	32,157

At 1 January 2019, land use right have been transferred to right-of-use assets (Note 8) due to initial application of application of HKFRS 16.

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 land use rights has been charged to profit or loss and included in the administrative expenses.

(b) Pledge of land use rights

At 31 December 2018, land use rights with the carrying amount of RMB21,516,000 have been pledged to Party A for other borrowings and RMB10,641,000 have been pledged to a bank for bank borrowings granted to the Group (Note 25).

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronics and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018						
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 carrying amount	161,807	18,313	3,257	—	—	183,377
At 1 January 2018	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)
At 31 December 2018	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 carrying amount	180,259	11,180	2,337	—	—	193,776
At 1 January 2019						
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 carrying amount	180,259	11,180	2,337	—	—	193,776
At 1 January 2019	**180,259**	**11,180**	**2,337**	**—**	**—**	**193,776**
Additions	**—**	**47**	**56**	**272**	**—**	**375**
Disposals	**(23,099)**	**(77)**	**(7)**	**—**	**—**	**(23,183)**
Depreciation	**(5,180)**	**(662)**	**(400)**	**(30)**	**—**	**(6,272)**
Reclassification to investment properties (Note 9)	**(26,787)**	**—**	**—**	**—**	**—**	**(26,787)**
Reclassification	**8,307**	**(7,844)**	**(463)**	**—**	**—**	**—**
Impairment	**—**	**(17)**	**—**	**(242)**	**—**	**(259)**
At 31 December 2019	**133,500**	**2,627**	**1,523**	**—**	**—**	**137,650**
At 31 December 2019						
Cost	**184,427**	**24,998**	**9,992**	**21,529**	**—**	**240,946**
Accumulated depreciation	**(45,690)**	**(22,354)**	**(8,469)**	**(4,219)**	**—**	**(80,732)**
Accumulated impairment	**(5,237)**	**(17)**	**—**	**(17,310)**	**—**	**(22,564)**
Net carrying amount	**133,500**	**2,627**	**1,523**	**—**	**—**	**137,650**

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

Notes:

(a) Depreciation of property, plant and equipment

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

	2019 RMB'000	2018 RMB'000
Selling and marketing expenses	**4,304**	5,117
Administrative expenses	**1,968**	5,326
	6,272	10,443

(b) Impairment of property, plant and equipment

As at 31 December 2018, impairment losses of RMB1,500,000 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

At 31 December 2019, the buildings with an aggregate carrying amount of RMB107,652,000 (2018: RMB66,375,000) were pledged to Party A for other borrowings granted to the Group (note 25) and RMB25,848,000 were pledged to Ruihua as disclosed in note 29. The buildings of RMB25,848,000 have also been frozen by a PRC court for a legal proceedings as disclosed in note 30(a)(ii) to the consolidated financial statements.

At 31 December 2018, the buildings with a carrying amount of RMB113,884,000 was pledged to a bank for bank borrowings granted to the Group (Note 25).

8. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000 (note a)	Leasehold properties RMB'000 (note b)	Total RMB'000
At 1 January 2019, upon adoption of HKFRS16	32,157	92,728	124,885
Disposals	(5,038)	—	(5,038)
Reclassified to investment properties (Note 9)	(7,861)	—	(7,861)
Amortisation charge	(825)	(21,954)	(22,779)
At 31 December 2019	18,433	70,774	89,207

Note:

(a) The Group leases land in Mainland China for own use. The leases are held between 27 to 40 years. At 31 December 2019, the leasehold land of RMB15,252,000 has been pledged as collaterial to Party A for other borrowings granted to the Group (note 25) and RMB3,181,000 has been pledge to Ruihua as disclosed in note 29. The leasehold land of RMB3,181,000 has also been frozen by a PRC court for a legal proceedings as disclosed in note 30(a)(ii) to the consolidated financial statements.

(b) Short-term leases and other leases with lease term end within 12 months of the date of initial application of HKFRS 16 during the year were RMB1,983,000. Total cash outflow for leases during the year ended 31 December 2019 amounted to RMB21,817,000.

For both years, the Group leases retail shops and office for its operations. Lease contracts are entered into for fixed term of 1 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

8. RIGHT-OF-USE ASSETS *(Continued)*

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019	2018 *(note)*
	RMB'000	RMB'000
Amortisation of right-of-use assets	22,779	—
Interest on lease liabilities	6,243	—
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	1,983	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	—	31,527

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the amortisation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (See note 2).

9. INVESTMENT PROPERTIES

	2019	2018
	RMB'000	RMB'000
At 1 January	5,066	5,235
Reclassification from property, plant and equipment (Note 7)	26,787	—
Reclassified from right-of-use assets (Note 8)	7,861	—
Depreciation	(692)	(169)
At 31 December	39,022	5,066
Cost	41,794	7,146
Accumulated depreciation	(2,772)	(2,080)
Net carrying amount	39,022	5,066

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 RMB46,563,000 as at 31 December 2019 (2018: RMB5,297,000) has been determined by an independent valuer using income approach 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

At 31 December 2019, investment properties of RMB31,236,000 (2018: RMB5,066,000) have been pledged as collateral to Party A for the other borrowings granted to the Group (Note 25) and RMB7,786,000 have been pledged to Ruihua as disclosed in note 29. The investment properties of RMB7,786,000 have also been frozen by a PRC court for a legal proceedings as disclosed in note 30(a)(ii) to the consolidated financial statements.

10. INTANGIBLE ASSETS

	Non-compete agreements RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2018			
Cost	4,970	15,059	20,029
Accumulated amortisation	(4,970)	(8,953)	(13,923)
Impairment	—	(5,255)	(5,255)
Net carrying amount	—	851	851
At 1 January 2018	—	851	851
Additions	—	311	311
Amortisation (Note 33)	—	(865)	(865)
At 31 December 2018	—	297	297
At 31 December 2018			
Cost	4,970	8,407	13,377
Accumulated amortisation	(4,970)	(8,110)	(13,080)
Net carrying amount	—	297	297
At 1 January 2019			
Cost	4,970	8,407	13,377
Accumulated amortization	(4,970)	(8,110)	(13,080)
Net carrying amount	—	297	297
At 1 January 2019	**—**	**297**	**297**
Additions	**—**	**1,197**	**1,197**
Amortisation (Note 33)	**—**	**(154)**	**(154)**
At 31 December 2019	**—**	**1,340**	**1,340**
At 31 December 2019			
Cost	**4,970**	**9,604**	**14,574**
Accumulated amortisation	**(4,970)**	**(8,264)**	**(13,234)**
Net carrying amount	**—**	**1,340**	**1,340**

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

11. INTEREST IN JOINT VENTURE

	2019 **RMB'000**	2018 RMB'000
At 1 January	**—**	—
Capital contribution or loan	**—**	—
Share of loss	**—**	—
At 31 December	**—**	—

The Group has the following joint venture as at 31 December 2019:

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 2018 and 2019.

12. INTEREST IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
At 1 January	—	—
Share of loss	—	—
Impairment loss	—	—
At 31 December	—	—

The following list contains only the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of Company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
(a) Taixing Huazhang Shengshi Huazhang Electronics Sales Co., Ltd. 泰興市盛世華章電器銷售有限公司	The PRC	RMB5,000,000	15%	—	15%	Inactive
(b) Nanjing Ruihu Electronic Commercial Technology Co., Ltd. ("Ruihu") 南京瑞虎電子商務科技有限公司	The PRC	RMB51,000,000	(note)	—	(note)	Inactive

Note: The Group has not contributed any capital into Ruihu, but two out of five directors are appointed by the Group.

12. INTEREST IN ASSOCIATES *(Continued)*

(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 2019, 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 2018 and 2019.

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

On 5 December 2016, Yangzhou Huiyin together with an equity investor, Ruihua 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 agreed to subscribe for 49% of the equity interest. The Group has not contributed any capital into Ruihu as at 31 December 2019. The Group did not share Ruihu's result for the year. The details of capital commitment in relation to Ruihu are set out in note 45 to the consolidated financial statements.

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

	2019 **RMB'000**	2018 RMB'000
Unlisted equity investment, at fair value		
– 南京雲澤網絡科技有限公司	**600**	600
	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 (2018: RMB Nil).

14. DEFERRED TAX ASSETS AND LIABILITIES

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB1,229,039,000 (2018: RMB1,435,426,000) 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 2020 to 2024.

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 RMB454,486,000 (31 December 2018: RMB440,158,000). 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 2019 and 2018.

15. INVENTORIES

	2019 RMB'000	2018 RMB'000
Merchandise held for resale	**81,592**	163,215
Write-down of inventories for obsolescence	**(4,341)**	(5,846)
	77,251	157,369
Low value consumables	**—**	161
Total	**77,251**	157,530

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

	2019 RMB'000	2018 RMB'000
Included in cost of sales		
– Carrying amount of merchandise sold	**431,723**	912,022
– Reversal of write-down of inventories (Note 36)	**(1,505)**	(15,737)
	430,218	896,285

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

	2019 RMB'000	2018 RMB'000
Trade receivables	**25,911**	38,506
Less: Provision for impairment	**(17,233)**	(15,407)
Trade receivables, net	**8,678**	23,099
Bills receivable	**200**	890
Trade and bills receivables, net	**8,878**	23,989

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:

	2019 RMB'000	2018 RMB'000
0 - 30 days	**1,091**	13,613
31 - 90 days	**1,855**	4,298
91 - 365 days	**5,895**	4,786
1 year - 2 years	**3,289**	2,745
2 years - 3 years	**2,074**	12,176
Over 3 years	**11,707**	888
Total	**25,911**	38,506

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 3.1(d).

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**2019 RMB'000**	2018 RMB'000
Prepayments to suppliers, net of provision	a	**42,940**	47,250
Rebate receivable from suppliers, net of provision	b	**1,652**	461
Prepaid rentals		**—**	8,517
Deposits		**714**	2,323
Value added tax recoverable		**26,562**	33,049
Other receivables from third parties, net of provision			
– Interests receivable from banks		**—**	129
– Amount paid on behalf of certain suppliers		**102**	674
– Staff advances		**685**	1,411
– Others	c	**2,139**	7,521
		74,794	101,335

Note:

(a) Prepayments to suppliers, net of provision

Prepayments to suppliers, include the following items:

	Note	**2019 RMB'000**	2018 RMB'000
Gross amounts			
Yangzhou Suohai Electronics Co. Ltd ("Suohai")	(i)	**—**	216,456
Jiangsu Zhipu Electronics Appliance Co. Ltd ("Zhipu")	(i)	**—**	138,915
Nanjing Mei Zanying Electronic Sales Co. Ltd ("Mei Zanying")	(ii)	**—**	41,400
Others	(iii)	**54,548**	49,036
		54,548	445,807
Amounts written off		**(1,997)**	(396,771)
Subtotal		**52,551**	49,036
Less:			
Impairment losses			
Suohai, Zhipu and Mei Zanying	(i)	**—**	396,771
Others		**11,608**	1,786
Amounts written off		**(1,997)**	(396,771)
Subtotal		**9,611**	1,786
Carrying amount		**42,940**	47,250
Movement of impairment loss			
At 1 January		**1,786**	416,127
Impairment loss on prepayment to other supplier	(iii)	**9,822**	1,019
Reversal of impairment			
– Sushai and Zhipu	(i)	**—**	(11,252)
– Mei Zanying	(ii)	**—**	(7,337)
		—	(18,589)
Amounts written off		**(1,997)**	(396,771)
At 31 December		**9,611**	1,786

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".

(iii) During the year 31 December 2019, impairment losses of RMB9,822,000 (2018: RMB1,019,000) on prepayments to other suppliers were recognised since the Group has disputes with these suppliers and suspended business with them. The directors of the Company considered that it is difficult for collection of repayment from these suppliers and thus impairment was made.

(b) During the year ended 31 December 2018, an impairment loss of RMB122,783,000 on rebate receivables was written off due to the fact that a subsidiary was dormant and inactive since 2018. As at 31 December 2019, the accumulated impairment losses on rebate receivables from suppliers was RMB707,562,000 (2018: RMB707,562,000).

(c) During the year ended 31 December 2019, impairment losses of RMB3,926,000 (2018: RMB4,798,000) on other receivables were recognised, taking into account of the expected credit loss on these other receivables. At 31 December 2019, the accumulated impairment losses on other receivables amounted to RMB9,814,000 (2018: RMB6,388,000).

Reversal of impairment/impairment losses on prepayments to other suppliers and other 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

	Note	2019 RMB'000	2018 RMB'000
Pledged bank deposits	(a)	**16,101**	39,060
Frozen bank deposits	(b)	**7,141**	—
		23,242	39,060

Notes:

a) At 31 December 2019, bank deposits of approximately RMB16,101,000 (2018: RMB39,060,000) had been pledged as collateral for the Group's bills payable of RMB16,101,000 (2018: RMB39,050,000) (Note 22).

b) At 31 December 2019, bank deposits of RMB7,141,000 were frozen by courts for certain legal proceedings against the Group. The details of the legal proceedings were disclosed in note 30 to the consolidated financial statements.

19. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash on hand		
– denominated in RMB	**121**	136
Cash at bank		
– denominated in RMB	**22,664**	21,021
– denominated in HK$	**617**	26,679
– denominated in US$	**275**	239
	23,556	47,939
	23,677	48,075

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with credit worthy bank with no recent history of default.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

20. SHARE CAPITAL

	Par value	Number of ordinary shares	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2018, 31 December 2018 and 2019	US$0.001	4,000,000,000	4,000,000	24,147
Issued and fully paid:				
At 1 January 2018	US$0.001	2,057,960,017	2,057,960	13,739
Issue of new shares (note)	US$0.001	480,000,000	480,000	3,027
At 31 December 2018 and 2019	US$0.001	2,537,960,017	2,537,960	16,766

Note:

On 6 February 2018, an aggregate of 480,000,000 ordinary shares of the Company had been issued at a subscription price of HK$0.5 per share upon completion of subscription agreement. The net proceeds arising from the subscription amounted to 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.

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 2018	1,613,731	28,007	55,395	(1,936,741)	(239,608)
Loss for the year	—	—	—	(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)
Balance at 1 January 2019	**1,803,618**	**28,007**	**55,395**	**(2,097,472)**	**(210,452)**
Loss for the year	**—**	**—**	**—**	**(108,837)**	**(108,837)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**
Total comprehensive loss	**—**	**—**	**—**	**(108,837)**	**(108,837)**
Balance at 31 December 2019	**1,803,618**	**28,007**	**55,395**	**(2,206,309)**	**(319,289)**

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, lapse of share options expired 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

	Note	2019 RMB'000	2018 RMB'000
Trade payables	(a)	**115,024**	122,604
Bills payable	(b)	**16,101**	39,050
		131,125	161,654

Notes:

a) At 31 December 2019, the trade payables included outstanding balances of RMB58,911,000 (2018: RMB58,911,000) arising from purchases of goods from Suohai and Zhipu made in previous years and trade balances of RMB23,481,000 (2018: RMB23,481,000) due to Nanjing Ruihu Electronic Commercial Technology Co., Ltd, an associate of the Group.

b) At 31 December 2019, the bills payable were secured by bank deposits of RMB16,101,000 (2018: RMB39,060,000) (note18).

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:

	2019 RMB'000	2018 RMB'000
0 - 30 days	**11,127**	57,149
31 - 90 days	**1,811**	12,550
91 - 365 days	**5,646**	28,666
1 year - 2 years	**75,823**	21,874
2 years -3 years	**18,301**	2,170
Over 3 years	**2,316**	195
	115,024	122,604

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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

23. ACCRUALS AND OTHER PAYABLES

	Note	**2019 RMB'000**	2018 RMB'000
Salary and welfare payables	(a)	**10,071**	29,175
Accrued expenses		**2,150**	7,310
Deposits		**3,006**	2,609
Value added tax and other tax payables		**1,242**	1,430
Interest payables		**351**	2,205
Guarantee deposit for subscription of ordinary shares of the Company	(b)	**2,930**	2,930
Advances from a third party, interest bearing	(c)	**—**	25,410
Advances from an equity investor of an associate and accrued penalty	(d)	**—**	3,900
Amount due to a shareholder	(e)	**5,230**	4,894
Rental payable to a former director	(f)	**3,853**	2,872
Others		**13,347**	14,721
Amount due to Chongqing Saint	(g)	**2,077**	—
		44,257	97,456

Note:

(a) During the year ended 31 December 2019, the directors, after the consultations with the PRC lawyer, considered that the accrued housing provident fund for previous years was no longer payable. Therefore, the accrued Housing Provident Fund of RMB19,987,000 was written back to the profit or loss.

(b) The guarantee deposit for subscription of ordinary shares of the company represented the deposit received from a shareholder for subscription of the ordinary shares of the Company

(c) At 31 December 2018, the advance from an individual third party (Party A) was denominated in Hong Kong dollar, carried interest at a fixed rate of 5.5% per annum and was repayable together with interest payable at the date of maturity in Jun 2019, being six months from the date of the borrowing. The amount was fully repaid in 2019. The amount was secured by the assets as disclosed in note 48.

(d) 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 a former director Mr. Cao Kuanping, 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 to settle the principal of RMB24,485,000 together with the overdue penalty charge of RMB515,000. The outstanding balance of RMB3,900,000 represented the unsettled principal amount of RMB3,315,000 and the accrued overdue penalty charge of RMB 585,000 as at 31 December 2018. The outstanding amount together with further overdue penalty charge accrued in 2019 totalling RMB4,505,000 has been transferred to the financial liabilities at fair value through profit or loss (note 29).

(e) At 31 December 2019, the amount due to a shareholder represented an advance made from a shareholder, China Ruike Investment & Development Co. Ltd. ("China Ruike") in 2017, China Ruike is a company connected with the former director, Mr. Cao Kuanping. The amount is unsecured, interest free and repayable on demand.

(f) The amount represents the outstanding rental charges of RMB2,872,000 together with penalty and default charge of RMB981,000 totalling RMB3,853,000 payable to a former director, Mr. Cao Kuanping. In 2019, Mr. Cao kuanping commenced legal proceedings against the Group for repayment of outstanding rentals, the details of which are set out in note 30 to the consolidated financial statements.

(g) The amount due to Chongqing Saint is unsecured, interest free and repayable on demand. Chongqing Saint is controlled by the Chairman.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

24. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Traditional business		
– Receipts in advance of delivery of products	**25,976**	35,661
– Prepaid card	**3,374**	4,119
	29,350	39,780

Receipts in advance of delivery of products

Advances from customers include the non-refundable payment received from customers, for which the Group has obligation to transfer goods or services to customers.

Prepaid card

The prepaid card is a kind of cash advance from customers for redeeming of goods. The prepaid card has no expiry date and the prepaid card holder can only redeem the money stored in the prepaid card by purchase of goods.

	2019 RMB'000	2018 RMB'000
Movements in contract liabilities		
Balance at 1 January	**39,780**	70,507
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities	**(26,603)**	(61,532)
Decrease in contract liabilities as a result of disposal of subsidiaries	**—**	(1,690)
Increase in contract liabilities as a result of receiving consideration in advance from the customers	**16,123**	31,766
Increase in contract liabilities as a result of receiving consideration in advance from the customers by prepaid card	**50**	729
Balance at 31 December	**29,350**	39,780

25. BORROWINGS

	Note	2019 RMB'000	2018 RMB'000
Non-current			
Bonds payables	(a)	**8,027**	7,616
Other borrowings	(c)	**51,619**	348,518
		59,646	356,134
Current			
Bank borrowings	(b)	**—**	38,000
Other borrowings	(c)	**363,957**	—
		363,957	38,000
		423,603	394,134

(a) Bonds payables

In 2015, the Company placed 2 bonds of HK$5,000,000 each for 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. The bonds of HK$5,000,000 are due for repayment on 21 April 2023 and the remaining bonds of HK$5,000,000 are due for repayment on 27 May 2023. These bonds were initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

(b) Bank borrowings

At 31 December 2019, the Group's bank borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**—**	38,000

At 31 December 2018, the Group's land use rights and buildings with aggregate carrying amount of RMB124,525,000 have been pledged as collateral for the Group's bank borrowings of RMB38,000,000.

At 31 December 2018, the Group's bank borrowings were bearing interest at a fixed rate with weighted average effective interest of 5.07% per annum.

(c) Other borrowings

		2019			2018		
			Accrued			Accrued	
		Principal	interest	Total	Principal	interest	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Independent third parties	(i)	**312,599**	**7,768**	**320,367**	210,800	5,595	216,395
Entities controlled by the Chairman	(ii)	**50,000**	**3,755**	**53,755**	50,000	1,331	51,331
Entity connected with a director of the joint venture	(iii)	**—**	**—**	**—**	80,000	792	80,792
A related party	(iv)	**11,750**	**179**	**11,929**	—	—	—
A related company	(v)	**28,672**	**853**	**29,525**	—	—	—
		403,021	**12,555**	**415,576**	340,800	7,718	348,518
Secured		**307,570**	**7,354**	**314,924**	152,000	4,306	156,306
Unsecured		**95,451**	**5,201**	**100,652**	188,800	3,412	192,212
		403,021	**12,555**	**415,576**	340,800	7,718	348,518

At 31 December 2019, the other borrowing were repayable as follows:

	2019			2018		
		Accrued			Accrued	
	Principal	interest	Total	Principal	interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	**351,992**	**11,965**	**363,957**	—	—	—
After 1 year but within 2 years	**48,029**	**590**	**48,619**	340,800	7,718	348,518
After 2 years but within 5 years	**3,000**	**—**	**3,000**	—	—	—
	403,021	**12,555**	**415,576**	340,800	7,718	348,518

25. BORROWINGS *(Continued)*

(c) Other borrowings *(Continued)*

Notes:

(i) Independent third parties

	2019 **RMB'000**	2018 RMB'000
Party A	**314,924**	156,305
Party B	**—**	55,995
Party C	**—**	3,928
Party D	**—**	167
Party E	**4,084**	—
Party F	**1,277**	—
Party G	**82**	—
Party H	**—**	—
	320,367	216,395

Party A

Party A is Mr. Wu Jipeng who is a friend of the chairman. The directors after the consultation of a legal advisor, considered that Party A is an independent third party of the Group. The amount due to Party A as at 31 December 2018 comprised of outstanding loans of RMB152,000,000 and accrued interest of RMB4,305,000. The loans were denominated in RMB, carried interest at fixed rates ranging from 5% to 6.5% per annum and repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing. During the year ended 31 December 2019, Party A entered into a number of agreements with Party B, Party C, Party H and 新余滴行 Pursuant to these agreement a total amount of outstanding loans and accrued interest of RMB189,322,000 were transferred to Party A from these parties.

In December 2019, Party A agreed to waive the interest payment for 2019 totalling RMB18,917,000, therefore, the waiver of the interest expenses was net of the finance costs as disclosed in note 39 to the consolidated financial statements.

At 31 December 2019, the amount due to Party A comprised of outstanding loans of RMB307,570,000 and accrued interest of RMB7,354,000. The outstanding balance of RMB314,924,000 were secured by certain assets held by the Group as disclosed in note 48. The loans bearing interests at fixed rates ranging from 5% to 6.5% per annum.

Party B

The amount due to Party B as at 31 December 2018 comprised of outstanding loan of RMB55,000,000 and accrued interest of RMB995,000. The loan was denominated in RMB, carried interest at a fixed rate of 6.5% per annum and repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing. During the year ended 31 December 2019, Party B entered into an agreement with Party A pursuant to which Party B transferred the outstanding loan and interest of RMB71,006,000 to Party A.

25. BORROWINGS *(Continued)*

(c) Other borrowings *(Continued)*

Notes: (Continued)

(i) Independent third parties (Continued)

Party C

The amount due to Party C as at 31 December 2018 comprised of outstanding loan of RMB3,800,000 and accrued interest of RMB128,000. The loan was denominated in RMB, carried interest at a fixed rate of 5.5% per annum and repayable together with interest in May 2020, being 2 years from the date of the relevant loan. During the year ended 31 December 2019, Party C entered into an agreement with Party A pursuant to which Party C transferred the outstanding loan and interest of RMB3,964,000 to Party A.

Party E

On 15 August, 2019 Party E entered into a loan agreement with a subsidiary of the Group pursuant to which Party E granted a loan of RMB4,000,000 to the Group for a period of eighteen months. The loan is unsecured and bearing interest at 5.5% per annum.

Party F

On 16 January 2019, Party F entered into a loan agreement with a subsidiary of the Group pursuant to which Party F granted a loan of RMB22,000,000 to the Group for a period of two years. The loan is unsecured and bearing interest at 5% per annum. During the year ended 31 December 2019, the subsidiary made loan repayments of RMB20,971,000 to Party F. At 31 December 2019, the remaining outstanding loan and accrued interest were amounted to RMB1,277,000.

Party G

On 16 January 2019, Party G entered into a loan agreement with a subsidiary of the Group pursuant to which Party G granted a loan of RMB20,000,000 to the Group for a period of two years. The loan is unsecured and bearing interest at 5% per annum. During the year ended 31 December 2019, the subsidiary made full repayment of the loan to Party G. At 31 December 2019, the balance represented outstanding accrued interest.

Party H

On 4 June 2019, Party H entered into a loan agreement with a subsidiary of the Group pursuant to which Party H granted a loan of RMB20,000,000 to the Group for a period of two years. The loan is unsecured and bearing interest at 6.5% per annum.

On 5 June 2019, Party H entered into another loan agreement with a subsidiary of the Group pursuant to which Party H granted a loan of RMB10,000,000 to the Group for a period of two years. The loan is unsecured and bearing interest at 6.5% per annum.

On 3 December 2019, Party H entered into an agreement with Party A pursuant to which Party H transferred the outstanding loans and interest of RMB30,984,000 to Party A.

25. BORROWINGS *(Continued)*

(c) Other borrowings *(Continued)*

Notes: (Continued)

(ii) Entities controlled by the chairman

	2019 RMB'000	2018 RMB'000
廣東聖融金服控股有限公司("廣東聖融")	**48,441**	46,268
北京奇點新科技集團有限公司 (formerly known as 聖行(北京)控股集團有限公司) ("北京奇點")	**5,314**	5,063
	53,755	51,331

廣東聖融 and 北京奇點 are controlled by Mr. Yuan Li, the Chairman of the Company.

On 23 May 2018, 廣東聖融 entered into a loan agreement with a subsidiary of the Group pursuant to which 廣東聖融 granted a loan of RMB15,000,000 to the Group for a period of two years. The loan is unsecured and bearing interest at 5% per annum.

On 14 June 2018, 廣東聖融 entered into another loan agreement with the subsidiary pursuant to which 廣東聖融 granted another loan of RMB30,000,000 to the Group for a period of two years. The loan is unsecured and bearing interest at 5% per annum.

On 12 October 2018, 北京奇點 entered into a loan agreement with a subsidiary of the Group pursuant to which 北京奇點 granted a loan of RMB5,000,000 to the Group for a period of two years. The loan is unsecured and bearing interest at 5% per annum.

On 16 April 2020, 廣東聖融 and 北京奇點 agreed to extend the outstanding loans and interests which are due for repayment between May 2020 and October 2020 for a further period of two years.

(iii) Entity connected with a director of the joint venture

	2019 RMB'000	2018 RMB'000
新余滴行京流科技有限公司("新余滴行")	**—**	80,792

汪明英, a director of a joint venture, holds 18% interest in 新余滴行. The loans were denominated in RMB and carried interest at a fixed rate of 6.5% per annum. The loans were unsecured and with a term of two years. The loan of RMB50,000,000 was repayable in September 2020 and the related interest was repayable on demand. The remaining loan of RMB30,000,000 and the related interest was repayable in June 2020. In March 2019, 新余滴行entered into an agreement with Party A pursuant to which 新余滴行 transferred the outstanding loan and interest of RMB83,368,000 to Party A.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

25. BORROWINGS *(Continued)*

(c) Other borrowings *(Continued)*

Notes: (Continued)

(iv) A related party

	2019 **RMB'000**	2018 RMB'000
Mr. Yuan Yang	**11,929**	—

Mr. Yuan Yang is a brother of the Chairman.

On 9 August 2019, Mr. Yuan Yang entered into a loan agreement with a subsidiary of the Group pursuant to which Mr. Yuan Yang granted a loan of RMB8,000,000 to the Group for a period of eighteen months. The loan is unsecured and being interest at 5.5% per annum.

On 26 December 2019, Mr. Yuan Yang entered into another loan agreement with the subsidiary pursuant to which Mr. Yuan Yang granted a loan of RMB3,750,000 to the Group for a period of 3 months. The loan is unsecured and bearing interest at 6.5% per annum.

In March 2020, the subsidiary has made repayment of the principal of these loans of RMB11,750,000.

(v) A related company

	2019 **RMB'000**	2018 RMB'000
HK Saint Next Investment Limited ("HK Saint")	**29,525**	—

HK Saint is controlled by Mr. Yuan Yang

On 4 June 2019, HK Saint entered into a loan agreement with a subsidiary of the Group pursuant to which HK Saint granted a loan of US$6,170,000 (equivalent to RMB43,043,000 to the Group for a period of one year. The loan is unsecured and bearing interest at 5% per annum. During the year ended 31 December 2019, the subsidiary made a loan repayment of US$2,060,000. On 16 April 2020, HK Saint agreed to, extend the outstanding loan and interest which is due for repayment on 6 June 2020 for a further period of two years.

26. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 *(note)*		31 December 2018 *(note)*	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1_year	**20,157**	**25,073**	14,916	19,834	—	—
After 1 year but within 2 years	**18,312**	**21,697**	20,157	25,073	—	—
After 2 years but within 5 years	**25,078**	**29,251**	39,094	46,205	—	—
More than 5 years	**6,638**	**7,703**	9,609	12,446	—	—
	50,028	**58,651**	68,860	83,724	—	—
	70,185	**83,724**	83,776	103,558	—	—
Less: total future interest expenses		**(13,539)**		(19,782)		—
Present value of lease liabllities		**70,185**		83,776		—

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.1.2).

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	
	2019 RMB'000	2018 RMB'000
At 1 January	**26,178**	27,575
Change in fair value	**—**	(1,397)
Reclassified to financial liabilities at fair value through profit or loss (note 29)	**(26,178)**	—
At 31 December	**—**	26,178

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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 RMB123 million, RMB213.5 million and RMB500 million 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

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 recognised in profit or loss.

Details of the inputs and assumptions adopted in the valuation are described in note 3 to the consolidated financial statements.

On 27 March 2019, the Group entered into a comprise agreement with Ruihua Enterprises pursuant to which the Group agreed to settle the outstanding obligations as at 27 March 2019. The derivative financial instruments was reclassified to financial liabilities at fair value through profit or loss (note 29).

28. OTHER LIABILITIES

	2019 **RMB'000**	2018 RMB'000
At 31 December	**53,560**	53,560

The other liabilities arising from the contingent consideration arrangements represented payable to the former owner of acquired subsidiary, Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd ("Anhui Four Seas") in 2010. 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. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	**2019** **RMB'000**	2018 RMB'000
At 1 January			
Reclassified from derivative financial instruments	27	**26,178**	—
Reclassified from advances from an equity investor of an associate and accrued penalty	23(d)	**4,505**	—
Settlement paid		**(12,000)**	—
Change in fair value	34	**(18,683)**	—
At 31 December		**—**	—

On 27 March 2019, the Group signed a compromise agreement with two non-controlling shareholders, namely 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 45(b)(ii) to the consolidated financial statements.

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 RMB121, 827,000 (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 was 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 right-of-use assets of RMB3,181,000, buildings of RMB25,848,000 and investment properties of RMB7,786,000 of the Group with the aggregate carrying amount of RMB36,815,000 as at 31 December 2019 were pledged to secure the obligations of the Group under this compromise agreement.

On 22 May 2019, the aforesaid righ-of-use assets, buildings and investment properties were frozen by a PRC court for a legal proceedings as disclosed in note 30(a)(ii) to the consolidated financial statement.

29. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

In case the Group was 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 RMB121,827,000 plus any further default penalty of 0.05% calculated on a daily basis on the outstanding balance from 28 March 2019.

Thus, upon the signing of the compromise agreement by the Group on 27 March 2019, a financial instrument representing financial liabilities at fair value through profit or loss was established resulting in the following settlement arrangement to be recorded for the year ended 31 December 2019:

(i) the contractual liability of RMB12,000,000 was recognised;

(ii) the derivative financial liabilities of RMB26,178,000 were derecognised;

(iii) the accrued interests and penalties were derecognised; and

(iv) the change in fair value would be charged/credited to profit or loss.

Details of the inputs and assumptions adopted in the valuation of the financial liabilities at fair value through profit or loss are described in note 3 to the consolidated financial statements.

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 as set out in note 45(b).

Besides, Mr. Cao Kuanping, through his controlled company, Fuxin Investment Holding Co., Ltd., has pledged 131, 187,727 shares of the Company to Ruihua Enterprises. According to the shares pledge agreement, the 131,187,727 pledged shares have been transferred to Ruihua Enterprises and Ruihua Enterprises have realised RMB29,967,000 from the disposal of 71,656,000 shares in the market in 2019. The Directors of the Company believed that the remaining 59,531,727 shares would also be disposed afterwards.

Based on the legal opinion obtained by the Company, the total value of the 131,187,727 shares of the Company transferred to Ruihua Enterprises and the seized and frozen properties held by Mr. Cao Kuanping by the PRC court could be used to settle the RMB72,000,000 debt due by Mr. Cao Kuanping to Ruihua Enterprises. Hence, the directors of the Company believed that there would not be any shortage balance to Ruihua Enterprises and the change in fair value of the financial liabilities at fair value through profit or loss amounting to RMB18,683,000 was recorded to the profit or loss in the current year.

30. PROVISION FOR LITIGATIONS

	2019 **RMB'000**	2018 RMB'000
At 1 January	**—**	—
Provision for the year	**2,566**	—
At 31 December	**2,566**	—

30. PROVISION FOR LITIGATIONS *(Continued)*

a) Litigations made by Mr. Cao Kuanping against the Group

i) During the year ended 31 December 2019, the former director Mr. Cao Kuanping commenced legal proceedings against the Group seeking for compensation of RMB3,600,000 on unlawful termination of the employment contract by a subsidiary of the Group. Mr. Cao Kuangping increased the claim to RMB4,800,000 and also claimed for the salary for March 2019. Up to the date of approval of these consolidated financial statements, the case is still ongoing. Pursuant to a court order issued by the People's Court of Yangzhou on 17 December 2019, a bank account with balance of RMB2,400,000 held by Yangzhou Huiyin Household Appliance Co., Ltd., a subsidiary of the Group, should be frozen or an equivalent amount of other assets held by Yangzhou Huiyin Household Appliance Co., Ltd. should be seized under the court order pending the outcome of the legal proceedings. At 31 December 2019, the balance of the frozen bank account amounted to RMB7,000.

Subsequent to the reporting period on 8 January 2020, the People's Court of Yangzhou determined that the frozen bank account of the subsidiary was released but the inventories of the subsidiary to the extent of RMB4,527,000 were seized for a period of three years pending the outcome of the legal proceedings. The directors, after consultation with the legal advisor, considered that no provision for the legal proceedings shall be made in these consolidated financial statements as the legal proceedings is at an early stage and it is not probable that an outflow of future economic benefits is required.

ii) During the year ended 31 December 2019, the former director Mr. Cao Kuanping commenced legal proceedings against the Group seeking for outstanding salaries of RMB200,000 and insurance premium of US$1,705,278 (equivalent to RMB11,873,000). The insurance premium represented unpaid three years insurance premium for 2019 to 2021 of US$358,426 per annum. According to the complaint filed by Mr. Cao Kuanping, the subsidiary of the Group promised to pay the insurance premium from 2012 for a period of ten years provided that Mr. Cao Kuanping did not leave the subsidiary on his own accord. However, the subsidiary failed to make the payment of insurance premium which was due on 4 February 2019. On 21 March 2019, the subsidiary terminated the employment contract with Mr. Cao Kuanping. Pursuant to a court order issued by the People's Court of Yangzhou on 22 May 2019, certain right-of-use assets of RMB3,181,000, buildings of RMB25,848,000 and investment properties of RMB7,786,000 with a total carrying amount of RMB 36,815,000 held by Yangzhou Huiyin Household Appliance Co., Ltd. was frozen for a period of three years pending the outcome of the legal proceedings. The aforesaid right-of-use assets, buildings and investment properties were pledged to Ruihua Enterprises as disclosed in note 29 to the consolidated financial statements.

Up to the date of approval of these consolidated financial statements, the case is still ongoing. The directors, after consultation with the legal advisor, considered that no provision for the legal proceedings shall be made in these consolidated financial statements as the legal proceedings is at an early stage and it is not probable that an outflow of future economic benefits is required.

iii) During the year ended 31 December 2019, the former director Mr. Cao Kuanping commenced legal proceedings against a subsidiary of the Group seeking for outstanding rental charges of RMB2,872,000 together with default penalty and accrued interest of RMB981,000, totaling RMB3,853,000. According to the complaint filed by Mr. Cao Kuanping, the subsidiary leased an office from Mr. Cao Kuanping from 20 April 2016 for a period of three years at RMB3,672,400 per annum. However, the rental charges for the period from 18 January 2018 to 19 January 2019 were not fully paid with an outstanding rental payable of RMB2,872,000. On 23 December 2019, the bank account of the subsidiary with a balance of RMB4,000,000 was frozen for a period of one year pending the outcome of the legal proceedings. The Group has accrued for the outstanding rental charges, default penalty and related interest for a total amount of RMB3,853,000 which was included in note 23(f) to the consolidated financial statements. Therefore, the directors considered that sufficient provision has been made and no further provision is necessary.

At the date of approval of these consolidated financial statements, the above three cases are still ongoing and the final outcome of which would be subject to the final judgements of the courts.

30. PROVISION FOR LITIGATIONS *(Continued)*

b) Litigations made by other parties against the Group

The Group has contingent liabilities arising from the ordinary course of business relating to claims from suppliers, employees and other parties. Judgements for certain cases were made by courts in the PRC against the Group. In additions to the provision of RMB2,566,000 made for the year ended 31 December 2019, the Group had accounted for the outstanding amounts in the trade and other payables. The directors considered that sufficient provision had been made in the consolidated financial statements according to the judgements. In addition, bank deposits of RMB3,134,000 were frozen by courts for certain of these legal proceedings. The directors have made estimates for potential litigation costs and claims based upon consultation with PRC lawyers. Actual results could differ from these estimates. In the opinion of the directors, such litigations and claims will not have a material adverse effect on the Group's financial condition, financial performance or cash flows.

c) Litigations made by the Group against suppliers

During the year ended 31 December 2019, the Group continued the legal proceedings against two suppliers namely Yangzhou Suohai Electronics Co. Limited ("Suohai") and Jiangsu Zhipu Electronics Appliance Co. Ltd. ("Zhipu") for recovery of prepayments totaling RMB355,371,000 made to them in previous years. In view of the uncertainty of the legal proceedings and the difficulties in enforcing the judgement against Suohai and Zhipu, the prepayments were fully written off in prior year. At 31 December 2019, there were outstanding balances of RMB58,911,000 arising from purchases of goods from Suohai and Zhipu made in previous years which were included in the trade payable as stated in note 22 to the consolidated financial statements. Up to the date of approval of these consolidated financial statements, the litigations are still in progress.

31. PROVISION FOR REINSTATEMENT COSTS

	2019 **RMB'000**	2018 RMB'000
At 1 January	**—**	—
Provision for the year	**806**	—
At 31 December	**806**	—
Analysed for reporting purposes as:		
Non-current liabilities	**620**	—
Current liabilities	**186**	—
	806	—

The provision for the reinstatement costs represents the directors beed estimate of the liabilities associated with the removal and disposal of lease hold improvements at the end of lease terms when the Group is contractually obliged to restore the rented premises to a condition specified in the lease agreements.

32. 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 2019	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	
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	

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

32. 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 2019	Principal activities	Note
Indirectly owned *(continued)*							
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	
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	
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)
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)
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.

32. 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	
	2019	2018
	RMB'000	RMB'000
NCI percentage	**35%**	35%
Current assets	**98,503**	127,027
Current liabilities	**(38,547)**	(58,260)
Current net assets	**59,956**	68,767
Non-current assets	**15,573**	808
Non-current liabilities	**(7,464)**	—
Non-current net assets	**8,109**	808
Net assets	**68,065**	69,575
Accumulated NCI	**23,823**	24,351

	Anhui Four Seas	
	2019	2018
	RMB'000	RMB'000
Revenue	**175,082**	234,662
(Loss)/profit for the year	**(1,510)**	5,273
Other comprehensive income	**—**	—
Total comprehensive income	**(1,510)**	5,273
(Loss)/profit allocated to NCI	**(528)**	1,846
Dividends paid to NCI	**—**	—

32. PARTICULARS OF SUBSIDIARIES *(continued)*

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

	Anhui Four Seas	
	2019	2018
	RMB'000	RMB'000
Cash inflows from operating activities	**10,563**	2,837
Cash inflows/(outflows) from investing activities	**(85)**	197
Cash outflows from financing activities	**(5,898)**	—
Net increase in cash and cash equivalents	**4,580**	3,034

33. OTHER INCOME

	2019	2018
	RMB'000	RMB'000
Income from suppliers on promotion activities	**2,534**	1,390
Rental income from investment properties	**2,090**	381
Rental income from subletting stores	**2,248**	4,941
Membership fee income	**—**	5,740
Government subsidies	**38**	3,071
Construction income	**2,073**	—
	8,983	15,523

Note:

All of the government subsidies for the years ended 31 December 2019 and 2018 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.

34. OTHER NET GAIN

		2019	2018
	Note	**RMB'000**	RMB'000
Loss on disposal of property, plant and equipment and right-of-use assets		**(16,262)**	(757)
Gains on disposal of subsidiaries	35	**—**	8,054
Gain on fair value change of derivative financial Instruments	27	**—**	1,397
Change in fair value of financial liabilities at fair value through profit or loss	29	**18,683**	—
Gain on deregistration of a subsidiaries		**105**	—
Write back of long outstanding trade and other payables		**3,377**	—
Penalty charge for late repayment of advance from an equity investor of an associate	23(d)	**(605)**	(752)
		5,298	7,942

35. 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)

35. 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)

36. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	Note	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**428,903**	894,504
Cost of services rendered		**3,114**	3,099
Cost of sales and services		**432,017**	897,603
Taxes and levies on main operations (note)		**1,798**	1,318
Employee benefit expenses (excluding share option scheme expenses)	37	**53,497**	88,211
Operating lease expenses in respect of buildings and warehouses		**—**	31,527
Amortisation of land use rights	6	**—**	797
Amortisation of right-of-use assets	8	**22,779**	—
Depreciation of property, plant and equipment	7	**6,272**	10,443
Depreciation of investment properties	9	**692**	169
Amortisation of intangible assets	10	**154**	865
Reversal of write-down of inventories	15	**(1,505)**	(15,737)
Impairment loss on trade receivables	16	**1,826**	1,154
Impairment loss on other receivables (including VAT)	17	**3,926**	4,798
Write back of long outstanding accrued housing provident fund	23(a)	**(19,987)**	—
Impairment loss on property, plant and equipments	8	**259**	1,500
Reversal of impairment loss on prepayments to Suohai, Zhipu and Mei Zanying	17	**—**	(18,589)
Impairment loss on prepayments to other suppliers	17	**9,822**	1,019
Auditor's remuneration			
– Audit services			
Current year		**4,300**	4,000
Prior year		**—**	5,034
Lease payment not included in the measurement of lease liabilities		**1,983**	—
Loss on disposal of property, plant and equipment and right-of-use assets	34	**16,262**	—
Direct operating expenses from property that generated rental income	33	**58**	—
Penalty and default charge on rental payable to a former director	23(f)	**981**	—

Note: Included in cost of sales

37. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2019 RMB'000	2018 RMB'000
Salaries and other allowances	**47,084**	76,095
Social security costs	**5,454**	9,850
Other benefits	**959**	2,266
	53,497	88,211

(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 2019, 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 (2018: 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 two (2018: one) directors whose emoluments were disclosed in the analysis presented in Note 38. The emoluments paid/payable to the remaining three (2018: four) individuals were as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other allowances	**1,161**	2,568
Social security costs	**182**	99
	1,343	2,667

The emoluments of the remaining three (2018: four) highest paid individuals of the Group fall within the following bands:

	2019	2018
Emoluments bands		
– Nil to HK$1,000,000	**3**	3
– HK$1,000,001 to HK$1,500,000	**—**	1
	3	4

38. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

For the years ended 31 December 2019 and 2018, the remuneration of directors of the Company paid/payable by the Group were as follows:

	For the year ended 31 December 2019					
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	—	—	—	—	—	—
Other executive directors						
– Mr. Xu Xinying	—	—	—	—	—	—
– Ms. Liu Simei (note (a))	300	—	—	—	—	300
– Mr. Xin Kexia (note (c))	826	—	7	—	—	833
Independent non-executive Directors						
– Mr. Tam Chun Chung (note (d))	28	—	—	—	—	28
– Mr. Zhao Jinyong	88	—	—	—	—	88
– Mr. Chen Rui (note (f))	88	—	—	—	—	88
– Mr. Fung Tak Choi (note (g))	88	—	—	—	—	88
Non-executive directors						
– Mr. Wang Cai (note (h))	—	—	—	—	—	—
– Ms. Xu Honghong (note (j))	—	—	—	—	—	—
	1,418	—	7	—	—	1,425

38. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

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

	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	—	—	—	—	—	—
Other executive directors	—	—	—	—	—	—
– Mr. Xu Xinying	—	—	—	—	—	—
– Ms. Liu Simei (note (a))	300	—	—	—	—	300
– Mr. Cao Kuanping (note (b))	837	—	15	—	—	852
– Mr. Xin Kexia (note (c))	396	—	—	—	—	396
Independent non-executive Directors	—					
– Mr. Tam Chun Chung (note (d))	311	—	—	—	—	311
– Mr. Li Hengjian (note (e))	136	—	—	—	—	136
– Mr. Zhao Jinyong	256	—	—	—	—	256
– Mr. Chen Rui (note (f))	112	—	—	—	—	112
Non-executive directors						
– Mr. Wang Cai (note (h))	—	—	—	—	—	—
– Mr. Sheng Xingpeng (note (i))	—	—	—	—	—	—
	2,348	—	15	—	—	2,363

38. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

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

Notes:

(a) Ms. Liu Simei resigned as the Executive Director of the Company on 27 April 2018 and she was re-appointed as Executive Director on 3 May 2018.

(b) 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.

(c) Mr. Xin Kexia was appointed on 15 June 2018 as Chief Executive Officer and Executive Director.

(d) Mr. Tam Chun Chung resigned as independent non-executive director of the Company on 30 January 2019.

(e) Mr. Li Hengjian resigned as independent non-executive director on 30 June 2018.

(f) Mr. Chen Rui was appointed on 4 July 2018 as independent non-executive director.

(g) Mr. Fung Tak Choi was appointed as a independent non-executive director on 19 February 2019.

(h) Mr. Wang Cai resigned as a non-executive director on 31 January 2019.

(i) Mr. Sheng Xingpeng resigned as a non-executive director on 15 June 2018.

(j) Ms. Xu Honghong was appointed as a non-executive director on 8 March 2019.

During the years ended 31 December 2019 and 2018, 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.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

39. NET FINANCE COSTS

	Note	2019 RMB'000	2018 RMB'000
Finance costs			
– Interest expenses on discounting of bills receivable		**311**	1,351
– Interest expenses on lease liabilities	26	**6,243**	—
– Interest expenses on bank borrowings	25	**1,026**	6,050
– Interest expenses on borrowings/advances from a former director, Mr. Cao Kuanping		**—**	287
– Interest expenses on borrowings/advances from Independent third parties	25(c)	**19,457**	8,357
– Interest expenses on loans from entities controlled by the Chairman	25(c)	**2,500**	1,483
– Interest expenses on loans from entities connected with a director of the joint venture	25(c)	**898**	2,460
– Interest expenses on loans from a related company	25(c)	**853**	—
– Interest expenses on loans from a related party	25(c)	**179**	—
– Interest expenses on bonds payables	25(a)	**764**	740
– Net foreign exchange losses on cash and cash equivalents borrowings and bonds payable		**1,181**	3,207
		33,412	23,935
– Waiver of interest payment by Mr. Wu	25(c)	**(18,917)**	—
		14,495	23,935
Finance income			
– Interest income on bank deposits		**(368)**	(2,270)
Net finance costs		**14,127**	21,665

40. INCOME TAX CREDIT

	2019 RMB'000	2018 RMB'000
PRC enterprise income tax		
Provision for the year	**(69)**	(289)
Overprovision in prior year	**73**	463
	4	174

(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 (2018: 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% (2018: 25%).

The tax credit for the year can be reconciled to loss before income tax as follows:

	2019 RMB'000	2018 RMB'000
Loss before income tax	**(108,914)**	(165,986)
Tax credit calculated at domestic tax rates applicable to losses in the respective regions	**(19,290)**	(41,497)
Tax effects of :		
Expenses not deductible for tax purpose	**(6,550)**	(12,521)
Unused tax losses not recognised	**25,909**	54,307
Over-provision in respect of prior years	**(73)**	(463)
Income tax credit	**(4)**	(174)

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

41. LOSS PER SHARE

(a) Basic

Basic loss 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.

	2019 **RMB'000**	2018 RMB'000 (Restated)
Loss attributable to equity holders of the Company	**(108,837)**	(160,731)
Weighted average number of ordinary shares in issue (thousand)	**126,898**	124,465
Basic loss per share (RMB)	**(0.858)**	(1.291)

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for Share Consolidation in January 2020.

(b) Diluted

The computation of diluted loss per share for the years ended 31 December 2019 and 2018 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 years.

42. DIVIDENDS

No interim dividend was declared during the year (2018: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

43. SHARE-BASED PAYMENT TRANSACTIONS

On 5 March 2010, the Company adopted a share option scheme. The purpose of the share option scheme is to provide the Company with a flexible means of giving incentive to, rewarding, compensating and/or providing to the participants and for such other purposes as the board of directors may approve from time to time. The board of directors may, at its discretion, invite any executive, non-executive or independent non-executive directors or any employees of the Company, or any of its subsidiaries or associated companies to take up share options.

(a) The following table disclose movements of the Company's share options

	2019			
Option	**Outstanding and exercisable at 1 January 2019**	**Forfeited during the year**	**Outstanding and exercisable at 31 December 2019**	**Remaining contractual life at 31 December 2019**
14 May 2015 share options	**21,500,000**	**—**	**21,500,000**	**0.36 years**
22 December 2015 share options	**11,380,000**	**—**	**11,380,000**	**5.9 years**
	32,880,000	**—**	**32,880,000**	

	2018			
Option	Outstanding and exercisable at 1 January 2019	Forfeited during the year	Outstanding and exercisable at 31 December 2018	Remaining contractual life at 31 December 2018
14 May 2015 share options	69,500,000	(48,000,000)	21,500,000	1.36 years
22 December 2015 share options	125,080,000	(113,700,000)	11,380,000	6.9 years
	194,580,000	(161,700,000)	32,880,000	

43. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

b) The following table lists the significant inputs to the fair value model of share options:

	Share options granted on 14 May 2015		Share options granted on 22 December 2015
	Nine directors and an associate of a director	**Management members**	**Ordinary employees**
Fair market value per share as at valuation date (HK$)	1.69	1.69	0.41
Exercise price (HK$)	1.69	1.69	0.95
Exercise multiple	2.8	2.2	2.2
Risk-free rate	1.199%	1.199%	1.46%
Volatility	61.95%	61.95%	67%
Expected dividend yield	0.00%	0.00%	0.00%
Post-vesting forfeiture rate	0%	20%	20%

(i) Share options granted on 14 May 2015

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 share options will be expired on 13 May 2020.

(ii) Share options granted on 22 December 2015

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 share options will be expired on 21 December 2025.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

In 2018, the addition of land use rights and buildings of RMB20,740,000 was settled by way of transfer from a suplier in settlement of prepayment from it.

(b) Reconciliation of liabilities arising from financing activities

	Restricted bank deposits pledged for bank borrowings RMB'000	Bank borrowings RMB'000 (Note 25)	Bonds payables RMB'000 (Note 25)	Advances from a third party RMB'000 (Note 23)	Other borrowings RMB'000 (Note 25)	Advance from a 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 (Note 23)	Lease liabilities RMB'000 (Note 26)	Total RMB'000
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
Repayment of advance from a former director	–	–	–	–	–	(25,000)	–	–	–	(25,000)
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	–	–	–	(114,200)	(36,200)	–	–	–	–	(150,400)
Advance from third parties and related parties	–	–	–	25,410	377,000	–	–	–	–	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)	–	(88,790)	340,800	(25,000)	(24,485)	(2,000)	–	127,626
Non-cash measurements										
Exchange adjustments	–	–	348	–	–	–	–	–	–	348
Accrued overdue penalty charge	–	–	–	–	–	–	585	–	–	585
Accrued interest	–	–	206	–	7,718	–	–	–	–	7,924
At 31 December 2018	–	38,000	7,616	25,410	348,518	–	3,900	2,930	–	426,374
At 31 December 2018	**–**	**38,000**	**7,616**	**25,410**	**348,518**	**–**	**3,900**	**2,930**	**–**	**426,374**
Effect of adoption of HKFRS 16 (Note)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**83,776**	**83,776**
At 1 January 2019	**–**	**38,000**	**7,616**	**25,410**	**348,518**	**–**	**3,900**	**2,930**	**83,776**	**510,150**
Changes from financing cash flows:										
Repayment of bank borrowings	**–**	**(38,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(38,000)**
Advance from third parties and related parties	**–**	**–**	**–**	**–**	**149,793**	**–**	**–**	**–**	**–**	**149,793**
Repayments of advance from third parties and related parties	**–**	**–**	**–**	**(25,410)**	**(88,272)**	**–**	**–**	**–**	**–**	**(113,682)**
Capital element of lease rentals paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13,591)**	**(13,591)**
Interest element of rentals paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,243)**	**(6,243)**
Total changes from financing cash flows	**–**	**(38,000)**	**–**	**(25,410)**	**61,521**	**–**	**–**	**–**	**(19,834)**	**(21,723)**
Non-cash measurements										
Exchange adjustments	**–**	**–**	**170**	**–**	**700**	**–**	**–**	**–**	**–**	**870**
Accrued overdue penalty charge	**–**	**–**	**–**	**–**	**–**	**–**	**605**	**–**	**–**	**605**
Accrued interest	**–**	**–**	**241**	**–**	**4,837**	**–**	**–**	**–**	**6,243**	**11,321**
Reclassified to financial liabilities at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**(4,505)**	**–**	**–**	**(4,505)**
At 31 December 2019	**–**	**–**	**8,027**	**–**	**415,576**	**–**	**–**	**2,930**	**70,185**	**496,718**

Note: The Group has initially applied HKFRS16 using the modified retrospective method and adjusted the opening balance at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS17.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 **RMB'000**	2018 RMB'000
Within operating cash flows	**1,983**	31,527
Within financing cash flows	**19,834**	—
	21,817	31,527

Note: The adoption of HKFRS 16 introduce a change in classification of cash flows of certain rentals paid on leases. The comparating amounts have not been restated.

These amounts are related to lease rentals paid.

45. COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office premises warehouses and stores under non-cancellable operating lease agreements. At 31 December 2019, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2019 **RMB'000**	2018 RMB'000
Not later than 1 year	**241**	30,764
Later than 1 year and not later than 5 years	**—**	70,680
Later than 5 years	**—**	14,636
	241	116,080

As at 31 December 2019, operating lease related to office premises and warehouses with lease terms of less than 1 year. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

(b) Capital commitments

At 31 December 2019, capital commitments of the Group were as follows:

	Note	**RMB'000**	RMB'000
Capital commitments in respect of its equity investment in Nanjing Ruihu Electronic Commercial Technology Co., Ltd.	(i)	**—**	98,000
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)	(ii)	**—**	75,750
		—	173,750

45. COMMITMENTS (CONTINUED)

(b) Capital commitments (continued)

Year ended 31 December 2018

Note:

(i) 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.

(ii) 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 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.

Year ended 31 December 2019

On 27 March 2019, the Group entered into a compromise agreement with Ruihua Enterprises the details of which are set out in note 29 to the consolidated financial statements. Pursuant to the compromise agreement the Group agreed to settle the outstanding obligations at RMB12,000,000. After signing of the compromise agreement Ruihua Enterprises would withdraw the litigation for repayment against the Group. Ruihua Enterprises withdrew the litigation against the Group in April 2019 and the Group have settled the RMB12,000,000 with Ruihua Enterprises in 2019. The Directors considered that the capital commitments in respect of its equity investment in Nanjing Ruihua Electronic Commercial Technology Co., Ltd. and the purchase of 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. from a non-controlling interest shareholder, 江蘇瑞華投資合夥企業(有限合夥) would not be required under the above arrangement. The Directors believed that there were no capital commitment as at 31 December 2019.

46. ASSETS LEASED OUT UNDER OPERATING LEASES

The Group leases out investment properties and sublets certain area of the store to other parties 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.

	2019 **RMB'000**	2018 RMB'000
Not later than 1 year	**6,671**	3,980
Later than 1 year and not later than 5 years	**7,326**	7,992
	13,997	11,972

47. RELATED PARTY DISCLOSURES

Except as disclosed elsewhere in the consolidated financial statements, the Group has the following significant balances and transactions with related parties.

(a) Balance with related parties

Details of the Group's balance with related parties are as follows:

	Note	**2019 RMB'000**	2018 RMB'000
Amount due to a shareholder	23(e)	**5,230**	4,894
Rental payable to a former director	23(f)	**3,853**	2,872
Amount due to Chongqing Saint	23(g)	**2,077**	—
Loans from entities controlled by the Chairman	25(c)(ii)	**53,755**	51,331
Loans from a related party	25(c)(iv)	**11,929**	—
Loans from a related company	25(c)(v)	**29,525**	—
Trade payable to an associate	22(a)	**23,481**	23,481

(b) Transactions with related parties

During the year, the Group entered into the following transactions with related parties:

	Note	**2019 RMB'000**	2018 RMB'000
Rental expenses to a former director, Mr. Cao Kuanping	23	**—**	3,672
Penalty and default charge on rental payable to a former director, Mr. Cao Kuanping		**981**	—
Interest expenses on advance from a former director, Mr. Cao Kuanping		**—**	287
Interest expenses on loans from entities controlled by the chairman	39	**2,500**	1,483
Interest expenses on loans from entities connected with a director of the joint venture	39	**898**	2,460
Interest expenses on loans from a related company	39	**853**	—
Interest expenses on loans from a related party	39	**179**	—

A property leasing contract for office use was entered into by the Group with Mr. Cao Kuanping in 2016 for a term of 3 years from 20 January 2016 to 19 January 2019. During the year ended 31 December 2019, Mr. Cao Kuanping commenced legal proceedings against the Group seeking for outstanding rental charges of RMB2,872,000 together with penalty and default charge of RMB981,000, totaling RMB3,853,000. In addition, Mr. Cao Kuanping also commerced other legal proceedings against the Group as disclosed in note 30.

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.

47. RELATED PARTY DISCLOSURES *(Continued)*

(c) Key management compensation

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and other benefits in kind	**2,001**	3,434
Social security costs	**193**	148
	2,194	3,582

48. PLEDGE OF ASSETS

		2019	2018
	Note	**RMB'000**	RMB'000
Right-of-use assets	8	**18,433**	—
Land use rights	6	**—**	32,157
Investment properties	9	**39,022**	5,066
Buildings	7	**133,500**	180,259
		190,955	217,482

At 31 December 2019, the above assets of RMB154,140,000 were pledged to Party A for other borrowings granted to the Group and RMB36,815,000 were pledged to Ruihua as disclosed in note 29. The assets of RMB36,815,000 were also frozen by a PRC court for a legal proceedings as disclosed in note 30(a)(ii) to the consolidated financial statements.

At 31 December 2018, the above assets of RMB92,957,000 were pledged to Party A for other borrowings and advance granted to the Group (notes 23 and 25) and RMB124,525,000 were pledged to a bank for banking borrowings granted to the Group (note 25),

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019

49. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investments in and amounts due from subsidiaries		**—**	—
Current assets			
Cash and cash equivalents		**694**	26,596
Other receivables		**308**	—
Total current assets		**1,002**	26,596
Total assets		**1,002**	26,596
EQUITY			
Capital and reserves			
Share capital	20	**16,766**	16,766
Share premium	21(a)	**1,803,618**	1,803,618
Other reserves	21(c)	**119,475**	119,475
Accumulated losses		**(1,992,991)**	(1,966,810)
Total equity		**(53,132)**	(26,951)
LIABILITIES			
Non-current liabilities			
Borrowings		**8,027**	7,616
Current liabilities			
Accruals and other payables		**16,582**	45,931
Borrowings		**29,525**	—
Total current liabilities		**46,107**	45,931
Total liabilities		**54,134**	53,547
Total equity and liabilities		**1,002**	26,596

Yuan Li
Director

Liu Simei
Director

49. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

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 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	—	—	(229,973)	(229,973)
Balance at 31 December 2018	1,803,618	119,475	(1,966,810)	(43,717)
Balance at 1 January 2019	**1,803,618**	**119,475**	**(1,966,810)**	**(43,717)**
Loss and total comprehensive loss for the year	**—**	**—**	**(26,181)**	**(26,181)**
Balance at 31 December 2019	**1,803,618**	**119,475**	**(1,992,991)**	**(69,898)**

50. EVENTS AFTER THE REPORTING PERIOD

a) Covid-19

The directors of the Company consider that the outbreak of COVID-19 has adversely affected and may continue to adversely affect the business performance and position of the Group, mainly due to travel restrictions and other precaution measures imposed by relevant local authorities that resulted in delays in commencement of work and delivery of products to customers. Meanwhile, due to the inherent nature and unpredictability of future development of the virus and market sentiment, the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. Accordingly, the financial impact of the COVID-19 outbreak on the Group cannot be reasonably estimated at this stage.

b) Consolidation of shares

The Company passed an ordinary resolution at the extraordinary general meeting held on 3 January 2020 to implement a share consolidation (the "Share Consolidation") on the basis that every twenty issued and unissued shares of US$0.001 each in the share capital of the Company be consolidated into one consolidated share of US$0.02 each in the share capital of the Company. The Share Consolidation became effective on 7 January 2020.

51. CONTINGENT LIABILITIES

Except for those as disclosed in note 30 to the consolidated financial statements, the Group had no other contingent liabilities as at 31 December 2019.

52. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative figure is not restated. Further details of changes in accounting policies are disclosed in Note 2.1.2. In addition, certain comparative figures have been reclassified to conform to the current year's presentation.

53. APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 51 to 155 were approved and authorised for issue by the board of directors of the Company on 17 April 2020.

Financial Summary

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			Restated		
Results					
Revenue	**470,731**	920,807	1,347,436	1,384,029	2,053,850
(Loss)/Profit attributable to equity holders of the Company	**(108,837)**	(160,731)	(715,623)	(722,752)	(398,598)
Assets and liabilities					
Total assets	**475,661**	601,885	1,015,475	1,895,820	2,714,342
Total liabilities	**755,459**	772,784	1,212,588	1,559,070	1,973,043
Total equity	**(279,798)**	(170,899)	(197,113)	336,750	777,299
Non-controlling interests in equity	**22,725**	22,787	28,756	22,436	12,833