HUIYIN SMART COMMUNITY CO., LTD.
汇银智慧社区有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1280)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

1. Revenue for 2017 was approximately RMB1,347.4 million, representing a decrease of 2.6% from approximately RMB1,384.0 million for 2016, which was mainly due to the traditional business did not perform well as expected.

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

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

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

5. Revenue of new retail business, including the results from sales of import merchandise and general merchandise, amounted to approximately RMB203.5 million, representing approximately 15.1% of the total revenue of the Group for 2017, while that proportion of 2016 was approximately 13.3%.

The board (the "Board") of directors (the "Directors") of Huiyin Smart Community Co., Ltd. (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group" or "Huiyin") for the year ended 31 December 2017 together with the comparative figures for 2016.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	**Year ended 31 December** **2017** ***RMB'000***	2016 *RMB'000*
Revenue	9	**1,347,436**	1,384,029
Cost of sales	10	**(1,315,776)**	(1,327,070)
Gross profit		**31,660**	56,959
Other income		**36,101**	20,221
Other losses – net		**(13,134)**	(90,676)
Selling and marketing expenses	10	**(198,674)**	(188,474)
Administrative expenses	10	**(532,719)**	(456,516)
Operating loss		**(676,766)**	(658,486)
Finance income		**6,061**	11,807
Finance costs		**(34,935)**	(54,122)
Finance costs – net		**(28,874)**	(42,315)
Share of loss of a joint venture		**(27,500)**	(1,148)
Share of loss of an associate		**(122)**	(211)
Loss before income tax		**(733,262)**	(702,160)
Income tax expense	11	**(2,910)**	(28,026)
Loss for the year		**(736,172)**	(730,186)
Attributable to:			
– Equity holders of the Company		**(720,604)**	(722,752)
– Non-controlling interests		**(15,568)**	(7,434)
		(736,172)	(730,186)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	12	**(38.76)**	(45.25)
– Diluted	12	**(38.76)**	(45.25)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

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

CONSOLIDATED BALANCE SHEET *(continued)*
As at 31 December 2017

		As at 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	8	**7,062**	7,358
Deferred income tax liabilities		**—**	211
Deferred government grants		**—**	2,701
		7,062	10,270
Current liabilities			
Trade and bills payables	7	**683,732**	850,852
Accruals and other payables		**308,645**	326,047
Borrowings	8	**131,289**	305,084
Current income tax liabilities		**725**	13,257
Other current liabilities		**53,560**	53,560
		1,177,951	1,548,800
Total liabilities		**1,185,013**	1,559,070
Total equity and liabilities		**1,015,475**	1,895,820

NOTES:

1 GENERAL INFORMATION

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

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

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

2 BASIS OF PREPARATION

2.1 Compliance with HKFRSs and HKCO

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the Hong Kong Companies Ordinance Cap.622 ("HKCO").

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

2 BASIS OF PREPARATION *(continued)*

2.2 Historical cost convertion

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

2.3 Going concern

The Group incurred a net loss attributable to the equity holders of the Company of RMB720,604,000 and had a net operating cash outflow of RMB232,945,000 for the year ended 31 December 2017. As at the same date, the Group's current liabilities exceeded its current assets by RMB379,679,000, and the Group suffered an accumulated loss of RMB1,909,166,000. Furthermore, bank borrowings totalled RMB 131,289,000 were due for repayment within the next twelve months while its cash and cash equivalents amounted to RMB 56,496,000 only as 31 December 2017. In view of these conditions the Group has undertaken a number of measures to improve its liquidity and insolvency:

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

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

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

2 BASIS OF PREPARATION *(continued)*

2.3 Going concern *(continued)*

(iv) In January 2019, the Group secured a financial support arrangement 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 the single largest shareholder of the Company, under which Chongqing Saint has undertaken that it would provide working capital loans for a maximum amount of RMB200 million to the Group as and when necessary to meet its working capital and other needs for a period of 24 months from the date of approval of these consolidated financial statements.

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

2.4 Investigation

On 23 March 2018, the Board of Directors was informed by the auditor of the Company that management was not able to provide reasonable explanations and sufficient supporting information to ascertain the large prepayments made to certain suppliers (see Note 6), including the collectability of such prepayments. In response to these concerns raised by the auditor of the Company, the Board of Directors established an Independent Investigation Committee to conduct an independent investigation ("Investigation") involving a third party consultant to investigate into the relevant matters. Subsequently, at the request of The Stock Exchange of Hong Kong Limited and the auditor of the Company, the scope of Investigation was extended to cover prepayments to other major suppliers of the Group and several other matters. As at the date of approval of these consolidated financial statements, the Investigation has been completed.

2 BASIS OF PREPARATION *(continued)*

2.4 Investigation *(continued)*

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

1. Prepayments to suppliers

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

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

2 BASIS OF PREPARATION *(continued)*

2.4 Investigation *(continued)*

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

2. Service transactions

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

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

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

2 BASIS OF PREPARATION *(continued)*

2.4 Investigation *(continued)*

(b) Payment for a consulting service agreement

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

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

3 ACCOUNTING POLICIES

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, including accruals of rebates from suppliers and provision for supplier rebates receivable, net realisable value of inventories, estimated impairment of non-financial assets other than goodwill; and estimate of fair value of investment properties for disclosure purpose.

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

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

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

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

3 ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

3 ACCOUNTING POLICIES *(continued)*

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

i) HKFRS 9, *Financial Instruments*

Nature of change

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

Impact

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

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

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

3 ACCOUNTING POLICIES *(continued)*

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

i) HKFRS 9, *Financial Instruments (continued)*

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

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

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

3 ACCOUNTING POLICIES *(continued)*

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

i) HKFRS 9, *Financial Instruments (continued)*

Date of adoption by Group

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

ii) HKFRS 15, *Revenue from Contracts with Customers*

Nature of change

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

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

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

3 ACCOUNTING POLICIES *(continued)*

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

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

Impact

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

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

The Group is mainly engaged in sales of household appliances and import merchandises and general merchandises and provision of maintenance and installation services for household appliances. The Group does not expect a significant impact on its consolidated financial statements with the implementation of the new HKFRS 15.

3 ACCOUNTING POLICIES *(continued)*

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

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

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

- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

- presentation of contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract liabilities in the balance sheet. This will result in some reclassifications as at 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line items.

Date of adoption by the Group

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

3 ACCOUNTING POLICIES *(continued)*

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

iii) HKFRS 16, Leases

Nature of change

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

The accounting for lessors will not significantly change.

Impact

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

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

3 ACCOUNTING POLICIES *(continued)*

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

iii) HKFRS 16, Leases *(continued)*

Date of adoption by Group

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

4 SEGMENT INFORMATION

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

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

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

- Traditional business, including the results from sales of household appliances.

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

4 SEGMENT INFORMATION *(continued)*

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

Comparative figures by segments for the year ended 31 December 2017 were also restated accordingly.

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

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

4 SEGMENT INFORMATION *(continued)*

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

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

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

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

4 SEGMENT INFORMATION *(continued)*

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

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

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

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

4 SEGMENT INFORMATION *(continued)*

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

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

5 TRADE AND BILLS RECEIVABLES

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

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

5 TRADE AND BILLS RECEIVABLES *(continued)*

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

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

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

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

5 TRADE AND BILLS RECEIVABLES *(continued)*

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

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

As at 31 December 2017, trade receivables of Nil (2016: RMB1,657,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

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

5 TRADE AND BILLS RECEIVABLES *(continued)*

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

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

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

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

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

6 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

Note:

(a) Prepayments to suppliers, net of provision

Prepayments to suppliers, include the following items:

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

(i) Suohai and Zhipu were television set suppliers of the Group. During the year ended 31 December 2017, the Group made total prepayments of RMB677,298,000 and RMB336,120,000 respectively to these two suppliers. The Group made purchases of 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. The Group had prepayment balances with these two television set suppliers of RMB225,887,000 and RMB161,476,000 respectively as at 31 December 2017.

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

In January 2018, management became aware that these two suppliers were in financial difficulties. The Group has therefore ceased conducting any new business with them since then. In July 2018, the Group reached an agreement with Zhipu under which Zhipu transferred a commercial property to the Group to settle part of the outstanding prepayment of approximately RMB20,740,000. In September 2018, the Group initiated legal proceedings against Suohai and Zhipu with a view to collecting the outstanding prepayments. As the trials for the Suohai and Zhipu cases have not commenced at the date of approval of these consolidated financial statements, management considered that it is premature to make an assessment on the recoverability of the prepayments from Suohai and Zhipu through the litigations. Meanwhile, the Group decided to set aside an impairment provision of RMB225,887,000 and RMB140,736,000, after netting off the value of the property transferred from Zhipu as disclosed above, to cover the Group's exposure to the prepayment balances with Suohai and Zhipu respectively as at 31 December 2017.

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

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

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

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

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

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

7 TRADE AND BILLS PAYABLES

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

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

7 TRADE AND BILLS PAYABLES *(continued)*

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

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

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

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

8 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current	**98,564**	318,810
Bonds payables (a)	**7,062**	7,358
Current		
Bank borrowings (b)	**131,289**	305,084
	138,351	312,442

(a) **Bonds payables**

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

8 BORROWINGS *(continued)*

(b) Bank borrowings

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

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

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

As at 31 December 2017, restricted bank deposits of RMB20,390,000 (31 December 2016: RMB 55,963,000) (Note 16) had been pledged as collateral for the Group's bank borrowings of US$2,600,000, equivalent to RMB16,989,000 (31 December 2016: US$7,600,000, equivalent to RMB 52,721,000).

8 BORROWINGS *(continued)*

(b) Bank borrowings *(continued)*

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

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

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

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

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

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

8 BORROWINGS *(continued)*

(b) Bank borrowings *(continued)*

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

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

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

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

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

9 REVENUE

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

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

10 EXPENSES BY NATURE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of merchandise before deducting supplier rebates	**1,405,709**	1,548,848
Supplier rebates	**(112,032)**	(223,584)
Taxes and levies on main operations	**1,991**	2,615
Employee benefit expenses (excluding share option scheme expenses)	**90,574**	88,999
Share Option Scheme expenses	**—**	44,832
Service charges	**3,911**	7,483
Operating lease expenses in respect of buildings and warehouses	**37,373**	40,944
Renovation, promotion and advertising expenses	**47,415**	57,730
Amortisation of land use rights	**1,199**	1,108
Depreciation of property, plant and equipment	**20,556**	23,425
Depreciation of investment properties	**170**	170
Amortisation of intangible assets	**2,460**	1,528
Utilities and telephone expenses	**13,341**	10,463
Transportation expenses	**11,535**	15,706
Entertainment expenses	**5,882**	4,794
Travelling expenses	**3,700**	4,350
Office expenses	**11,397**	4,695
Accrual/(reversal) of provision for obsolescence on inventories	**20,108**	(6,530)
Accrual/(reversal) of provision for impairment of trade receivables	**11,000**	(3,525)
(Reversal)/accrual of provision for impairment on other receivables (Note 6(c))	**(2,910)**	8,525

10 EXPENSES BY NATURE *(continued)*

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Accrual of provision for impairment of property, plant, and equipments	**28,361**	—
Accrual of provision for impairment of land use rights	**11,403**	—
Accrual of provision for impairment of intangible assets	**5,255**	—
Accrual of provision for impairment of prepayment to Suohai, Zhipu and Mei Zanying (Note 6(a(i), (ii)))	**415,360**	—
(Reversal)/accrual of provision for impairment of prepayment to other suppliers (Note 6(a(iii)))	**(39,976)**	40,743
Accrual of provision for rebate receivable from suppliers (Note 6(b))	**17,412**	269,929
Accrual of provision for investment in an associate	**812**	—
Property tax and other taxes	**2,495**	2,384
Auditor's remuneration	**9,329**	3,565
Bank charges	**4,932**	6,946
Consulting expenses (note a)	**1,744**	5,104
Others	**16,663**	10,813
Total of cost of sales, selling and marketing expenses and administrative expenses	**2,047,169**	1,972,060

note

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

11 INCOME TAX (EXPENSE)/CREDIT

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

11 INCOME TAX (EXPENSE)/CREDIT *(continued)*

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

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

(a) Hong Kong profits tax

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

(b) PRC enterprise income tax

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

12 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.

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

(b) Diluted

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

12 LOSS PER SHARE *(continued)*

(b) Diluted *(continued)*

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

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

13 DIVIDENDS

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

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

PricewaterhouseCoopers were engaged to audit the consolidated financial statements of the Group and a Disclaimer of opinion was issued. The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Group for the year ended 31 December 2017:

Disclaimer of Opinion

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

Basis for Disclaimer of Opinion

1. *Prepayments and Independent Investigation*

1(a) Prepayments to Two Television Set Suppliers

As described in the Note 6(a(i)) to the consolidated financial statements, Yangzhou Huiyin made prepayments to two television set suppliers Suohai and Zhipu during the year ended 31 December 2017 amounted to RMB677,298,000 and RMB336,120,000 respectively, which were significantly larger than their respective actual purchase amounts of RMB121,389,000 and RMB44,224,000 for the year 2017. Although Yangzhou Huiyin received refunds totalled RMB442,525,000 and RMB191,959,000 from Suohai and Zhipu respectively during the same year, the prepayments to Suohai and Zhipu still amounted to RMB225,887,000 and RMB161,476,000 respectively as at 31 December 2017.

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

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

1(b) Prepayment to an Air-conditioner Supplier

As described in Note 6(a(ii)) to the consolidated financial statements, the Group had a prepayment balance of RMB63,215,000 with an air-conditioner supplier as at 31 December 2017. The Group set aside an impairment provision of RMB48,737,000 against this prepayment balance in 2017 according to a supplier confirmation sent by the air-conditioner supplier in December 2017 ("Supplier Confirmation") which stated an outstanding amount of RMB14,478,000 only as at 31 December 2017. The Supplier Confirmation was not provided to us until August 2018. However, according to an independent audit confirmation obtained by us from the same air-conditioner supplier in March 2018, the prepayment balance as at 31 December 2017 was confirmed as RMB177,904,000, which was significantly different from that stated in the Supplier Confirmation. In accordance with the second independent confirmation we obtained in October 2018 from the same air-conditioner supplier, the prepayment balance as at 31 December 2017 was confirmed as RMB14,478,000.

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

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

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

- reasonable explanations for making prepayments to the two suppliers which were significantly larger than their respective purchase amounts in 2017, and why such prepayments were not supported by reasonable sales and purchase plans approved by management;

- reasonable explanation for not conducting detailed credit risk assessments on the two suppliers before making the significant prepayments to them in 2017;

- reasonable explanation together with the related supporting evidences for the significant refunds of prepayments in 2017;

- reasonable explanation as to why (i) certain current/former employees of the Group had shareholdings in the two suppliers during the course of their employment with Yanzhou Huiyin; (ii) Suohai's operating address was the same as that of a related party to the Group; and (iii) Zhipu's operating address was the same as that of a subsidiary of the Group;

- sufficient supportive evidences to justify the basis of impairment provisions made in 2017 against these prepayments or enable us to evaluate the financial positions of the two suppliers.

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

- a reconciliation for the significant difference of RMB163,426,000 between the amount stated in the first independent audit confirmation reply of RMB177,904,000 and that stated in the Supplier Confirmation of RMB14,478,000 provided by the Group, together with the related supporting evidences;

- a reconciliation for the significant difference of RMB48,737,000 between the prepayment balance of RMB63,215,000 as at 31 December 2017 per management accounts and that per the Supplier Confirmation of RMB14,478,000, together with the related supporting evidences;

- the basis for the impairment provision made against the outstanding prepayment as at 31 December 2017; and

- reasonable explanation for an employee of the Group holding a 10% interest in the air-conditioner supplier.

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

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

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

2. *Service transactions*

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

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

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

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

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

2(b) Payment for a consulting service agreement

As described in Note 10(a) to the consolidated financial statements, the Group made an upfront payment of RMB1.5 million in 2017 to an individual who was engaged to provide consulting services in relation to certain fund raising activities of the Group in accordance with a consulting service agreement entered into between the Group and the individual with a total contract amount of RMB3 million. Such upfront payment of RMB1.5 million was recorded as general and administrative expense in 2017, while the remaining RMB1.5 million was not paid or accrued by the Group as management believed the fund raising activities were not successfully executed and the remaining amount under the consulting service agreement will not be paid in the future.

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

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

- the nature and commercial substance of the RMB1.5 million payment recorded pursuant to the consulting service agreement; and

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Integrated business model

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

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

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

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

Traditional business

Retail business

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

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

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

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

New retail business

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

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

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

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

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

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

Customer Service: After-sales service and logistics management

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

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

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

Diversified marketing and promotion strategies

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

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

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

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

Management information and office system integration and upgrade

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

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

Human resource management

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

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

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

FINANCIAL REVIEW

Revenue

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

Turnover of the Group comprises revenues by operation as follows:

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

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

Cost of sales

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

Gross profit

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

Other income

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

Other losses

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

Selling and marketing expenses

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

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

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

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

Administrative expenses

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

The following table sets out a summary for administrative expenses:

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

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

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

Finance costs – net

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

Share of loss of a joint venture

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

Share of loss of an associate

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

Loss before income tax

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

Loss attributable to equity holders of the Company

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

Cash and cash equivalents

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

Inventories

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

Prepayments, deposits and other receivables

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

Trade and bills receivables

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

Trade and bills payables

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

Gearing ratio and the basis of calculation

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

Capital expenditure

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

Cash flows

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

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

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

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

Capital structure

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

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

Liquidity and financial resources

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

Pledging of assets

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

Contingent liabilities

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

Capital commitments

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

Foreign currencies and treasury policy

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

Final dividend

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

EMPLOYMENT AND REMUNERATION POLICY

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

HUMAN RESOURCES

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

OUTLOOK

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

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2017, except for the following deviations.

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

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

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

Mr. Xin Kexia was appointed as Chief Executive Officer on 15 June 2018. Mr. Cao resigned as Chief Executive Officer on 15 June 2018 and resigned as an executive director on 9 September 2018.

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.

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

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

AUDIT COMMITTEE

On 29 January 2019, the Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the auditor's report thereon.

As at the date thereof, the Audit Committee of the Company comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Zhao Jinyong and Mr. Chen Rui. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the CG Code issued by the Stock Exchange. The principal duties of the Audit Committee are to assist the Board in reviewing the internal audit function, financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

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

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2017 will be dispatched to shareholders of the Company and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hyjd.com in due course. This announcement can also be accessed on these websites.

CONTINUED SUSPENSION OF TRADING

Trading of the Shares will remain suspended until further notice.

Shareholders and potential investors are advised to exercise extreme caution when dealing in the shares of the Company.

By order of the Board
Huiyin Smart Community Co., Ltd.
Yuan Li
Chairman

Yangzhou, PRC, 31 January 2019

As at the date of this announcement, the Board of Directors of the Company comprises four executive Directors, namely Mr. Yuan Li, Mr. Xin Kexia, Mr. Xu Xinying and Ms. Liu Simei and two independent non-executive Directors, namely Mr. Zhao Jinyong and Mr. Chen Rui.