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 2018

HIGHLIGHTS

1. Revenue for 2018 was RMB920.8 million, representing a decrease of 31.7% from approximately RMB1,347.4 million for 2017, mainly attributable to that the Company has strategically discarded non-performing new retail business of continuous losses.
2. Gross profit margin for 2018 was 2.5%, while that of 2017 was 2.4%.
3. Operating loss for 2018 was approximately RMB144.3 million, while there was operating loss of approximately RMB671.8 million for 2017.
4. Loss for 2018 was approximately RMB165.8 million, while there was loss of approximately RMB731.2 million for 2017.
5. Revenue of new retail business, including the results from sales of import merchandise and general merchandise, amounted to approximately RMB64.2 million, representing approximately 7.0% of the total revenue of the Group for 2018, while that proportion of 2017 was approximately 15.1%.

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 2018 together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000 (Restated)
Revenue	5	**920,807**	1,347,436
Cost of sales		**(897,603)**	(1,315,776)
Gross profit		**23,204**	31,660
Other income		**15,523**	36,101
Other gains/(losses) – net		**7,942**	(8,153)
Reversal of impairment losses/(impairment losses) on financial assets, net		**5,300**	(374,713)
Selling and marketing expenses		**(130,328)**	(198,674)
Administrative expenses		**(65,962)**	(158,006)
Operating loss		**(144,321)**	(671,785)
Finance income		**2,270**	6,061
Finance costs		**(23,935)**	(34,935)
Finance costs – net		**(21,665)**	(28,874)
Share of loss of a joint venture		**—**	(27,500)
Share of loss of an associate		**—**	(122)
Loss before income tax	10	**(165,986)**	(728,281)
Income tax credit/(expense)	11	**174**	(2,910)
Loss for the year		**(165,812)**	(731,191)
Attributable to:			
– Equity holders of the Company		**(160,731)**	(715,623)
– Non-controlling interests		**(5,081)**	(15,568)
		(165,812)	(731,191)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	12	**(6.46)**	(38.49)
– Diluted	12	**(6.46)**	(38.49)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	As at 31 December **2018** RMB'000	2017 RMB'000 (Restated)	As at 1 January 2017 RMB'000 (Restated)
ASSETS				
Non-current assets				
Land use rights		32,157	27,740	45,857
Property, plant and equipment		193,776	183,377	225,737
Investment properties		5,066	5,235	5,405
Intangible assets		297	851	3,744
Interest in joint venture		—	—	—
Interests in associates		—	—	934
Equity investment designated at fair value through other comprehensive income		600	—	—
Deferred tax assets		—	—	11,486
		231,896	217,203	293,163
Current assets				
Inventories		157,530	257,977	228,547
Trade and bills receivables	6	23,989	39,842	68,524
Prepayments, deposits and other receivables	7	101,335	165,607	499,756
Restricted bank deposits		39,060	278,350	646,712
Cash and cash equivalents		48,075	56,496	159,118
		369,989	798,272	1,602,657
Total assets		601,885	1,015,475	1,895,820

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
As at 31 December 2018

	Note	As at 31 December		As at 1 January
		2018	2017	2017
		RMB'000	*RMB'000*	*RMB'000*
			(Restated)	*(Restated)*
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital		16,766	13,739	11,462
Reserves		(210,452)	(239,608)	270,296
		(193,686)	(225,869)	281,758
Non-controlling interests in equity		22,787	28,756	22,436
Total equity		(170,899)	(197,113)	304,194
LIABILITIES				
Non-current liabilities				
Borrowings	9	7,616	7,062	7,358
Deferred tax liabilities		—	—	211
Deferred government grant		—	—	2,701
Other payables		348,518	—	—
		356,134	7,062	10,270
Current liabilities				
Trade and bills payables	8	161,654	683,732	850,852
Accruals and other payables		97,456	308,645	326,047
Contract liabilities		39,780	—	—
Borrowings	9	38,000	131,289	305,084
Current income tax liabilities		22	725	13,257
Derivative financial instruments		26,178	27,575	32,556
Other current liabilities		53,560	53,560	53,560
		416,650	1,205,526	1,581,356
Total liabilities		772,784	1,212,588	1,591,626
Total equity and liabilities		601,885	1,015,475	1,895,820

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 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 Basis of preparation

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

2 BASIS OF PREPARATION *(continued)*

2.1 Basis of preparation *(continued)*

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interest in associates and joint venture.

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

2.2 Going Concern Basis

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

2 BASIS OF PREPARATION *(continued)*

2.2 Going Concern Basis *(continued)*

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

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

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

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

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

2 BASIS OF PREPARATION *(continued)*

2.2 Going Concern Basis *(continued)*

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

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

2 BASIS OF PREPARATION *(continued)*

2.3 Prior years investigation

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

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

2 BASIS OF PREPARATION *(continued)*

2.3 Prior years investigation *(continued)*

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

(a) As set out in Note 7, the Group made prepayments of RMB677,298,000 and RMB336,120,000 to two television set suppliers, Yangzhou Suohai Electronics Co., Ltd. ("Suohai") and Jiangsu Zhipu Electronics Appliance Co. Ltd ("Zhipu") respectively during the year ended 31 December 2017; and received refunds of prepayments amounting to RMB442,525,000 and RMB191,959,000 from Suohai and Zhipu during the year 2017 respectively. As at 31 December 2017, the Group's prepayments to Suohai and Zhipu amounted to RMB225,887,000 and RMB161,476,000 respectively. During the year ended 31 December 2017, the Group recognised impairment provision of RMB225,887,000 and RMB140,736,000 in view of subsequent settlement by way of transfer of properties from the supplier, legal proceedings against the suppliers and their financial difficulties. As at 31 December 2017, the carrying amounts to Suohai and Zhipu (net of accumulated impairment losses) amounted to RMBNil and RMB20,740,000 respectively.

2 BASIS OF PREPARATION *(continued)*

2.3 Prior years investigation *(continued)*

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

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

2 BASIS OF PREPARATION *(continued)*

2.3 Prior years investigation *(continued)*

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

(b) As set out in Note 7, the Group had a prepayment balance of RMB63,215,000 with an air-conditioner supplier, Nanjing Mei Zanying Electronics Sales Co. Ltd. ("Mei Zanying") as at 31 December 2017 and recognized impairment losses of RMB48,737,000 by reference to a second confirmation from Mei Zanying during the year ended 31 December 2017. The Group made no further prepayments to Mei Zanying for supply of goods since September 2018 and the employee holding a 10% interest in the air-conditioner supplier also resigned in 2018. As at 31 December 2018, the prepayment to Mei Zanying, after impairment losses, amounted to RMBNil (2017: RMB14,478,000), which was then written off as at 31 December 2018. Reversal of impairment losses of approximately RMB7,337,000 was recognized during the year ended 31 December 2018 upon receipt of goods and confirmations from Mei Zanying and reconciliation of the transactions and balance with it.

2 BASIS OF PREPARATION *(continued)*

2.3 Prior years investigation *(continued)*

(ii) Service transactions

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

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

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

2 BASIS OF PREPARATION *(continued)*

2.3 Prior years investigation *(continued)*

(ii) Service transactions *(continued)*

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

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

3 ACCOUNTING POLICIES

(A) 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.

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

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

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

HKFRS 9 Financial instruments

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

3 ACCOUNTING POLICIES *(continued)*

HKFRS 9 Financial instruments *(continued)*

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

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

Classification and measurement

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

3 ACCOUNTING POLICIES *(continued)*

Impairment under ECL model

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

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

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

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

3 ACCOUNTING POLICIES *(continued)*

HKFRS 15 Revenue from contracts with customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, changes in contract liability account balances between period. The disclosures are included in Notes 5. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to the revenue recognition.

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

3 ACCOUNTING POLICIES *(continued)*

HKFRS 15 Revenue from contracts with customers *(continued)*

Before the adoption of HKFRS 15, the Group recognized consideration received from customers in advance under accruals and other payables. Under HKFRS 15, the amount is classified as contract liabilities. Therefore, upon adoption of HKFRS 15, the Group reclassified approximately RMB70,507,000 from "advance from customers" under accruals and other payables to "contract liabilities" in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, under HKFRS 15, approximately RMB39,780,000 was reclassified from "advance from customers" under accruals and other payables to "contract liabilities" in relation to the consideration received from customers in advance for the business operations.

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

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

3 ACCOUNTING POLICIES *(continued)*

HKFRS 15 Revenue from contracts with customers *(continued)*

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

Consolidated statement of financial position as at 31 December 2018

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

Impact on the consolidated statement of cash flows

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

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

3 ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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

3 ACCOUNTING POLICIES *(continued)*

HKFRS 16, Leases

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

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

3 ACCOUNTING POLICIES *(continued)*

HKFRS 16, Leases *(continued)*

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

3 ACCOUNTING POLICIES *(continued)*

HKFRS 16, Leases *(continued)*

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

4 RESTATEMENTS

The Company has carried out a reassessment on the Group's consolidated financial statements for the prior years and identified the following misstatements. The Directors of the Company decided that the most appropriate treatment for these misstatements is to restate the comparative figures in the Group's consolidated financial statements. A detailed description of the nature of each prior year restatement is set out below. The amounts of the prior year restatements for each financial statement line item affected are presented in the tables in notes 4(i) - 4(iv) below.

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

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

4 RESTATEMENTS *(continued)*

In respect of the above in prior years, adjustments were made to account for the derivative regarding the right to purchase the interest held by Ruihua upon Ruihua's request for non-fulfillment of the target profit and certain requirements by the Group as aforesaid.

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

4 RESTATEMENTS *(continued)*

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

	For the year ended 31 December 2017 *RMB'000* *(As originally stated)*	**Adjustment** *RMB'000*	**Reclassification (Note i)** *RMB'000*	**For the year ended 31 December 2017** *RMB'000* *(Restated)*
Revenue	1,347,436	—	—	1,347,436
Cost of sales	(1,315,776)	—	—	(1,315,776)
Gross profit	31,660	—	—	31,660
Other income	36,101	—	—	36,101
Other losses - net	(13,134)	4,981	—	(8,153)
Impairment losses on financial assets, net	—	—	(374,713)	(374,713)
Selling and marketing expenses	(198,674)	—	—	(198,674)
Administrative expenses	(532,719)	—	374,713	(158,006)
Operating loss	(676,766)	4,981	—	(671,785)
Finance income	6,061	—	—	6,061
Finance costs	(34,935)	—	—	(34,935)
Finance costs – net	(28,874)	—	—	(28,874)
Share of loss of a joint venture	(27,500)	—	—	(27,500)
Share of loss of an associate	(122)	—	—	(122)
Loss before income tax	(733,262)	4,981	—	(728,281)
Income tax expense	(2,910)	—	—	(2,910)
Loss for the year	(736,172)	4,981	—	(731,191)
Attributable to:				
– Equity holders of the Company	(720,604)	4,981	—	(715,623)
– Non-controlling interest	(15,568)	—	—	(15,568)
	(736,172)	4,981	—	(731,191)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)				
– Basic	(38.76)	0.27	—	(38.49)
– Diluted	(38.76)	0.27	—	(38.49)

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

4 RESTATEMENTS *(continued)*

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

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

4 RESTATEMENTS *(continued)*

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

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

4 RESTATEMENTS *(continued)*

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

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

4 RESTATEMENTS *(continued)*

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

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

4 RESTATEMENTS *(continued)*

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

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

5 REVENUE AND SEGMENT INFORMATION

(i) Revenue

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

Disaggregation of revenue from contracts with customers

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

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

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(ii) Segment Information

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

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

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

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

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

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

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

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(ii) Segment Information *(continued)*

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

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

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(ii) Segment Information *(continued)*

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

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

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(ii) Segment Information *(continued)*

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

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

Segment assets and liabilities as at 31 December 2018 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	**430,849**	**44,776**	**28,978**	**504,603**
Unallocated assets				**97,282**
Total assets				**601,885**
Segment liabilities	**653,916**	**14,427**	**14,724**	**683,067**
Unallocated liabilities				**89,717**
Total liabilities				**772,784**

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(ii) Segment Information *(continued)*

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

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

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

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

6 TRADE AND BILLS RECEIVABLES

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

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

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

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

6 TRADE AND BILLS RECEIVABLES *(continued)*

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

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

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

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

7 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

7 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	
	2018	2017
	RMB'000	*RMB'000*
Gross amounts		
Yangzhou Suohai Electronics Co. Ltd (i)	**216,456**	225,887
Jiangsu Zhipu Electronics Appliance Co. Ltd (i)	**138,915**	161,476
Mei Zanying (ii)	**41,400**	63,215
Others (iii)	**49,036**	64,113
Amounts written off	**(396,771)**	—
Subtotal	**49,036**	514,691
Impairment losses		
Suohai, Zhipu and Mei Zanying (i)	**(396,771)**	(415,360)
Others	**(1,786)**	(767)
Amounts written off	**396,771**	—
Subtotal	**(1,786)**	(416,127)
Carrying amount	**47,250**	98,564

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

Note: *(continued)*

(i) Suohai and Zhipu were television set suppliers of the Group. During the year ended 31 December 2017, the Group made total prepayments of RMB677,298,000 and RMB336,120,000 respectively to these two suppliers. The Group made purchases of RMB121,389,000 and RMB44,224,000 from Suohai and Zhipu respectively, and received refunds of prepayment of RMB442,525,000 and RMB191,959,000 from Suohai and Zhipu during the same year ended 31 December 2017. The Group had gross prepayments to Suohai and Zhipu of approximately RMB225,887,000 and RMB161,476,000 as at 31 December 2017 respectively. The related accumulated impairment losses on gross prepayments to Suohai and Zhipu amounted to approximately RMB225,887,000 and RMB140,736,000 as at 31 December 2017 respectively. The carrying amounts of these prepayments to Suohai and Zhipu amounted to RMBNil and RMB20,740,000 as at 31 December 2017 respectively.

In January 2018, management became aware that these two suppliers were in financial difficulties. The Group has therefore ceased conducting any new business with them since then. In July 2018, the Group reached an agreement with Zhipu under which Zhipu transferred a commercial property to the Group to settle part of the outstanding prepayment of approximately RMB20,740,000. In August 2018, the Group initiated legal proceedings against Suohai and Zhipu with a view to recover the outstanding prepayments. Up to the date of approval of the consolidated financial statements, the litigation is still in process. Reversal of impairment losses of approximately RMB11,252,000 in aggregate was recognised during the year ended 31 December 2018 arising from finalization of certain purchase orders/transactions made with these two suppliers in prior years. Due to the potential difficulties in enforcing any judgement against Suohai and Zhipu to recover the prepayments from these suppliers, the Group decided to set aside full impairment on the remaining outstanding prepayments as at 31 December 2018, which were then written off on the same date.

(ii) The Group had a prepayment of approximately RMB63,215,000 with a large air-conditioner supplier, Mei Zanying as at 31 December 2017. In 2018, the Group received a supplier confirmation from Mei Zanying, and noted the balance acknowledged by Mei Zanying was only up to approximately RMB14,478,000. Thus, impairment loss of approximately RMB48,737,000 was made by the Group during the year ended 31 December 2017. The Group made no further prepayment for supply of goods to Mei Zanying since September 2018. During the year ended 31 December 2018, the Group recognized reversal of impairment loss of approximately RMB7,337,000 upon receipt of goods from Mei Zanying and reconciliation of the transactions and balance with it. As at 31 December 2018, the carrying amount of the prepayment to Mei Zanying (net of accumulated impairment losses of approximately RMB41,400,000) amounted to RMBNil and was then written off on the ground that there was no realistic prospect of recovery.

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

Note: *(continued)*

(b) During the year ended 31 December 2018, impairment loss of approximately RMBNil (2017:RMB17,412,000) on rebate receivables from suppliers was recognized, taking into account of the business relationship, the quality and financial position of the suppliers. In the same year, impairment loss of approximately RMB122,783,000 (2017: RMB109,213,000) on rebate receivables was written off. As at 31 December 2018, the accumulated impairment losses on rebate receivables from suppliers was approximately RMB707,562,000 (2017: RMB830,345,000).

(c) During the year ended 31 December 2017, reversal of impairment loss of RMB2,910,000 was made on other receivable from a third party was recognized in profit or loss as the Group reached an agreement with the third party for settlement.

(d) During the year ended 31 December 2018, impairment losses of approximately RMB4,798,000 on other receivables were recognized, taking into account of the expected credit loss on these other receivables. As at 31 December 2018, the accumulated impairment losses on other receivables amounted to approximately RMB6,388,000 (2017: RMB1,590,000).

(e) During the year 31 December 2018, impairment losses of approximately RMB1,019,000 on prepayments to other suppliers were recognized in view of long outstanding merchandise to be supplied by these other suppliers (2017: Reversal of impairment losses on prepayments to other suppliers of approximately RMB39,976,000 as the prepayment was fully recovered in 2017). As at 31 December 2018, the accumulated impairment losses on other suppliers amounted to approximately RMB1,786,000 (2017: RMB767,000).

The prepayments, deposits and other receivables of the Group are denominated in RMB and their carrying amounts approximate their fair values as at the end of the reporting period.

8 TRADE AND BILLS PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**122,604**	197,782
Bills payable	**39,050**	485,950
	161,654	683,732

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

Ageing analysis of trade payables based on invoice date as at the end of the reporting period is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
0 - 30 days	**57,149**	133,211
31 - 90 days	**12,550**	22,259
91 - 365 days	**28,666**	38,667
1 year - 2 years	**21,874**	2,459
2 years -3 years	**2,170**	253
Over 3 years	**195**	933
	122,604	197,782

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

As at 31 December 2018, restricted bank deposits of RMB39,060,000 (2017: RMB257,960,000) had been pledged as collateral for the Group's bank acceptance bills of approximately RMB39,050,000 (2017: RMB485,950,000).

9 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Bonds payables (a)	**7,616**	7,062
Current		
Bank borrowings (b)	**38,000**	131,289
	45,616	138,351

(a) Bonds payables

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

(b) Bank borrowings

As at 31 December 2018, the Group's bank borrowings were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**38,000**	131,289

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

9 BORROWINGS *(continued)*

(b) Bank borrowings *(continued)*

As at 31 December 2017, the Group's use land use rights, the relevant buildings and investment properties with the aggregate carrying amount of RMB194,782,000 had been pledged as collateral for the Group's bank borrowings of RMB97,600,000.

As at 31 December 2017, the restricted bank deposits of RMB20,390,000 had been pledged as collateral for the Group's bank borrowings of US$2,600,000, equivalent to RMB16,989,000.

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

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

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
6 months or less	**—**	96,789
6 - 12 months	**38,000**	34,500
	38,000	131,289

The carrying amount of non-current borrowings and current bank borrowings approximates their fair value at the end of reporting period.

9 BORROWINGS *(continued)*

(b) Bank borrowings *(continued)*

The carrying amounts of the Group's bank borrowings at the end of reporting period are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current		
– RMB	**38,000**	114,300
– US dollar	**—**	16,989
	38,000	131,289

As at 31 December 2018, the Group's bank borrowings with the aggregate carrying amount of RMBNil (31 December 2017: RMB16,989,000) are of floating rates and bank borrowings with the aggregate carrying amount of RMB38,000,000 (31 December 2017: RMB114,300,000) are of fixed rates.

The weighted average effective interest rate of the Group's bank borrowings at the end of the reporting period are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current	**5.07%**	4.88%

10 LOSS BEFORE INCOME TAX

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of merchandise before deducting supplier rebates (note b)	**1,080,360**	1,405,709
Supplier rebates (note b)	**(168,338)**	(112,032)
Taxes and levies on main operations (note b)	**1,318**	1,991
Employee benefit expenses (excluding share option scheme expenses)	**88,211**	90,574
Operating lease expenses in respect of buildings and warehouses	**31,527**	37,373
Amortisation of land use rights	**797**	1,199
Depreciation of property, plant and equipment	**10,443**	20,556
Depreciation of investment properties	**169**	170
Amortisation of intangible assets	**865**	2,460
(Reversal of write-down)/write-down of inventories for obsolescence (note b)	**(15,737)**	20,108
Impairment loss on trade receivables	**1,154**	11,000
Impairment loss/(reversal of impairment loss) on other receivables	**4,798**	(2,910)
Impairment loss on property, plant and equipment	**1,500**	28,361
Impairment loss on land use rights	**—**	11,403
Impairment loss on intangible assets	**—**	5,255
(Reversal of impairment loss)/impairment loss on prepayments to Suohai, Zhipu and Mei Zanying	**(18,589)**	415,360
Impairment loss/(Reversal of impairment loss) on prepayments to other suppliers	**1,019**	(39,976)
Impairment loss on rebate receivables from suppliers	**—**	17,412
Impairment loss on interest in an associate	**—**	812
Property tax and other taxes	**—**	2,495
Auditor's remuneration		
– Audit services		
Current year	**4,000**	9,329
Prior year	**5,034**	—

10 LOSS BEFORE INCOME TAX *(continued)*

Note:

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

(b) Included in cost of sales.

11 INCOME TAX CREDIT/(EXPENSE)

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
PRC enterprise and withholding income taxes	**—**	—
– Current income tax - PRC income tax		
Provision for the year	**(317)**	(725)
Overprovision in prior year	**463**	9,090
	174	8,365
– Deferred tax		
Origination and reversal of temporary differences	**—**	(11,275)
	—	(11,275)
	174	(2,910)

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

Note:

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Loss before income tax	**(165,986)**	(728,281)
Tax credit calculated at domestic tax rates applicable to losses in the respective regions	**(41,497)**	(182,070)
Tax effects of:		
(Income not taxable)/expenses not deductible for tax purpose	**(12,521)**	7,426
Unused tax losses not recognized	**54,307**	62,866
Deductible temporary differences for which no deferred tax asset was recognised	**—**	116,028
Utilisation of previously unrecognised tax losses	**—**	(1,340)
Over-provision in respect of prior years	**(463)**	—
Income tax (credit)/expenses	**(174)**	2,910

(a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the year (2017: Nil).

(b) PRC enterprise income tax

Under the Corporate Income Tax Law of the PRC, the enterprise income tax rate applicable to the subsidiaries located in mainland China is 25% (2017: 25%).

12 LOSS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Loss attributable to equity holders of the Company (RMB'000)	**(160,731)**	(715,623)
Weighted average number of ordinary shares in issue (thousand)	**2,489,302**	1,859,210
Basic loss per share (RMB cents)	**(6.46)**	(38.49)

(b) Diluted

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 did not assume the exercise of share options and settlement in ordinary shares for the other liabilities arising from the contingent consideration arrangements in prior years as their assumed exercise would decrease the loss per share for both of the years 2018 and 2017.

13 DIVIDENDS

No interim dividend was declared during the year (2017: Nil) and the Board of Directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

Crowe (HK) was engaged to audit the consolidated financial statements of the Group and an Qualified 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 2018:

Qualified Opinion

We have audited the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by HKICPA and have been properly prepared in compliance with the disclosure requirements of the HKCO.

Basis for Qualified Opinion

Opening balances and corresponding figures

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

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

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

Basis for Qualified Opinion

Opening balances and corresponding figures

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

Traditional Retail Business of Household Appliances

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

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

New retail business

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

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

Customer service: After-sales service and logistics management

(*1*) *After-sales service*

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

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

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

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

(2) *Logistics management*

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

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

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

Diversified marketing and promotion strategies

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

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

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

Management information and office system integration and upgrade

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

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

Human resource management

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

FINANCIAL REVIEW

Revenue

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

Turnover of the Group comprises revenues by operations as follows:

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

Cost of sales

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

Gross profit

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

Other income

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

Other gains

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

Selling and marketing expenses

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

Administrative expenses

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

Operating loss

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

Finance costs – net

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

Loss before income tax

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

Income tax expense

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

Loss attributable to equity holders of the Company

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

Cash and cash equivalents

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

Inventories

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

Prepayments, deposits and other receivables

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

Trade and bills receivables

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

Trade and bills payables

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

Gearing ratio and the basis of calculation

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

Cash flows

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

For the year ended 31 December 2018 ,the net cash inflow from financing activities was approximately RMB327.6 million, compared with RMB166.1 million for the year ended 31 December 2017. This was mainly due to the increase in new share subscriptions and third-party advances.

Liquidity and financial resources

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

Pledging of assets

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

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

Contingent liabilities

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

Capital commitments

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

Foreign currencies and treasury policy

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

Final dividend

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

Employment and remuneration policy

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

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

Human resources

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

Matters after the reporting period

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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 2018, the Company has complied with the code provisions as set out in the CG Code except the following deviation.

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

AUDIT COMMITTEE

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

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

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

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

The Audit Committee has in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2018 and the auditor's report thereon.

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

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2018 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, 16 June 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; one non-executive Director, namely Ms. Xu Honghong, and three independent non-executive Directors, namely Mr. Zhao Jinyong, Mr. Chen Rui and Mr. Fung Tak Choi.