Huiyin Household Appliances (Holdings) Co., Ltd.

汇银家电（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1280

2014
INTERIM REPORT

CONTENTS

EXECUTIVE DIRECTORS

Mr. Cao Kuanping *(Chairman and Chief Executive Officer)*
Mr. Mo Chihe
Mr. Mao Shanxin
Mr. Wang Zhijin
Mr. Lu Chaolin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhou Shuiwen
Mr. Tam Chun Chung
Mr. Lo Kwong Shun Wilson

COMPANY SECRETARY

Ms. Ngai Kit Fong

AUDIT COMMITTEE

Mr. Tam Chun Chung *(Chairman)*
Mr. Zhou Shuiwen
Mr. Lo Kwong Shun Wilson

REMUNERATION COMMITTEE

Mr. Zhou Shuiwen *(Chairman)*
Mr. Cao Kuanping
Mr. Lo Kwong Shun Wilson

NOMINATION COMMITTEE

Mr. Lo Kwong Shun Wilson *(Chairman)*
Mr. Mo Chihe
Mr. Zhou Shuiwen

AUTHORISED REPRESENTATIVES

Mr. Cao Kuanping
Ms. Ngai Kit Fong

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STOCK CODE

1280

WEBSITE OF THE COMPANY

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(information on the website does not form part of this interim report)

MARKET REVIEW

In the first half of 2014, the Chinese economy remained stable under the ever-changing market circumstances. According to the statistics of the National Bureau of Statistics of China, the GDP growth rate for the first half of 2014 reached 7.4%. With the increasing income of urban and rural residents, the growth rate of consumption in Mainland China picked up. Both the rapid development of the high-end home appliances market and the demand of customers for product replacements and upgrades brought new growth momentum for the household appliances industry.

According to the statistics published by the National Bureau of Statistics of China, the total retail sales of consumer goods in the country for the first half of 2014 was RMB12,419.9 billion, representing a year-on-year growth of 12.1% and a decrease of 0.6 percentage points as compared with the growth rate for the same period of last year. Retail sales of consumer goods in urban areas was approximately RMB10,725.3 billion, representing a year-on-year growth of 12.0%, while those in rural areas was approximately RMB1,694.6 billion, representing a year-on-year growth of 13.2%. Sales of household appliances and AV equipment reached approximately RMB353.7 billion, representing an increase of 7.9% over the same period of last year.

In terms of residents' income growth, the third and fourth-tier household appliances market in China still has room for development. Rural residents' income continues to grow faster than that of urban residents during the period under review. According to the data from the National Bureau of Statistics of China, for the first half of 2014, the disposable income per capita of urban residents was RMB14,959, representing an actual year-on-year growth of 7.1%; while the cash income per capita of rural residents was RMB5,396, representing an actual year-on-year growth of 9.8%. As the income gap between urban and rural residents gradually narrows down, the consumption potential of rural residents is huge and the demand of rural residents for high-quality household appliances will increase substantially.

Despite of the cessation of the energy conservation subsidy policy in 2013, the household appliance market is not facing a slowdown on its growth rate. With the implementation of "new urbanization", it is expected the demand in the third and fourth-tier household appliance markets will go up steadily. Meanwhile functional, smart, energy-saving and environment-friendly household appliances have become a new source of consumption growth. With more and more concern from the customers, the proportion of innovative health-care household appliances will continue to increase, which will bring new development opportunities for China's household appliance market.

BUSINESS REVIEW

An integrated four-pronged operation model

Since our establishment, the Company and its subsidiaries (collectively the "Group") has been adhering to its integrated business model comprising retail sales, bulk distribution (including sales to franchised stores), client services and E-commerce. By making full use of its extensive sales network and resources in the third and fourth-tier markets and capturing premium market opportunities, the Group gradually became a leader in the third and fourth-tier home appliance markets in China. During the period under review, the Group actively expanded and deepened its network of self-operated stores and franchised stores and took advantage of its "Huiyin" brand and "Huiyin e-commerce platform", thereby further enhancing the recognition of the Group in targeted markets and strengthening its leading market position.

Supported by its existing retail business, the Group actively expanded all business segments through self-operated stores and its extensive franchise network. During the period under review, the Group continued to focus on supply chain management and customer relations management, strengthened its internal operation management, and enhanced customer loyalty while optimizing operation efficiency.

For the six months ended 30 June 2014, total revenue of the Group was approximately RMB1,538.3 million, representing an increase of 16.9% as compared with approximately RMB1,316.2 million for the same period in 2013. Profit of the Group for the period was approximately RMB45.9 million, while loss for the same period in 2013 was approximately RMB104.4 million. Gross profit margin decreased to 12.1%, representing a year-on-year decrease of 1.6 percentage points. The growth in total revenue and the profit recorded for the period were attributable to the rise of domestic demand for household appliances, the business development of the Group, and reversal of provisions made by the Group in respect of the amounts due from suppliers after taking into account of the recovery of operation in the upstream industry.

Retail business

Self-operated stores

The Group has placed its business focus on high-growth markets in third and fourth-tier cities in Jiangsu and Anhui Provinces, and sold a variety of products and brands through its self-operated stores.

During the period under review, the Group continued to optimize its store management program. As at 30 June 2014, the Group had 43 self-operated stores, including 35 general stores, 5 shop-in-shops located in department stores and 3 brand retail stores. During the period, the Group's revenue from self-operated stores decreased by 2.8% to RMB450.0 million, accounting for approximately 29.3% of the Group's total sales revenue.

During the period under review, the Group continued to optimize its product structure and flexibly adjusted product portfolio. With growing public concern over environment pollution, the Group launched several health-care products, such as air purifier and water cleaner, to improve profitability of its business and be attractive for the products in the stores.

In respect of client management, the Group continued to implement its business strategies focusing on establishing client relationship, whereby sorting out client information and establishing client database by means of alliance across different industries and group purchases, established and maintained good relationship with customers and gradually improved customer loyalty. Meanwhile, the Group continued to expand the connection of "Huiyin e-commerce platform" to its existing network, enhancing synergy and interaction of online and offline sales. Through the implementation of various optimization strategies such as store renovation and service-oriented marketing, the Group improved its overall competitiveness and operation efficiency significantly during the period under review.

Franchised stores

Most of the franchised stores of the Group were operated under the registered brand of "Huiyin". During the period under review, the Group continued to enhance the overall operating and management standards of existing franchised stores to optimize its franchise network and enhance its service quality. As at 30 June 2014, the Group had a total of 71 franchised stores. Revenue derived from sales to franchised stores decreased by 79.5% to RMB51.8 million, accounting for approximately 3.4% of the Group's total sales revenue.

During the period under review, the Group continued to increase its training efforts to staff of franchised stores, including the provision of periodic multi-facet and multi-level training sessions covering product knowledge, sales skills, and planning and promotion, etc., which resulted in a substantial improvement in the operational efficiency of our franchised stores. On the other hand, the Group also enhanced the interaction between headquarters and franchised stores, realized resource and information sharing through the e-commerce platform, and improved the sales confidence and operational quality of franchised stores through a diversity of promotional methods.

Store network

The Group adopted a strategy of expanding its store network of self-operated stores and franchised stores simultaneously, whereby the Group increased its market share in targeted markets and gradually strengthened its leading position in the highly-fragmented third and fourth-tier markets. As at 30 June 2014, the Group had an integrated retail network with 114 stores in 20 cities or districts of Jiangsu and Anhui Provinces, of which 43 and 71 were self-operated stores and franchised stores, and the total number of stores in Jiangsu and Anhui Provinces was 99 and 15 respectively.

Bulk distribution business

The Group distributes as a supplier to our franchised stores as well as other independent third parties. Bulk distribution business and retail business of the Group are complementary to each other, which provided stable supply for our self-operated stores and franchised stores. Meanwhile, backed by ownership of an established and extensive sales network in the third and fourth-tier markets, the Group well understands consumers' demand and preferences in target market, enabling it to better meet the market demand and consolidate its market position.

During the period under review, the Group continued to launch flexible and diversified promotion activities such as group purchase of brand products and warehouse marketing, and maintained its long-term and close relationship with upstream suppliers, resulting in the increase in market share and enhancement of industrial recognition.

Client services: after-sales and logistics management

After-sales service is important to the continued expansion of the Group's retail and bulk distribution business and also the competitive advantage of the Group. Operating through authorized arrangements with independent third party operators allowed the Group to extend the geographic coverage of its after-sales customer service with less capital and operational risks. As at 30 June 2014, the Group managed a total of 34 service centers, providing quality services for customers across a broad geographical area.

The Group endeavoured to improve logistics management of its existing logistics network, warehouses and distribution centers in order to support its growing business operations. During the period under review, the Group enhanced information management and implemented real-time monitoring systems relating to its security system, inventory and employee performance. The Group has integrated after-sales and logistics into one centralized platform to improve efficiency and effectiveness of client service management.

E-commerce

During the period under review, the Group achieved the goal of a year-on-year growth in sales through the "Huiyin e-commerce platform" through building an on-line platform and organizing e-commerce professional team. Collaborated with major websites, Huiyin Lehu Mall developed a shopping experience combining online and offline sales by allowing customers to purchase online and receive delivery from its physical stores. The online to offline business integration allowed centralized management of its downstream business

Diversified marketing strategies

In order to meet the market demand of consumers in different regions, the Group has adopted diversified marketing and brand promotion strategies and has flexibly established strategic store locations in different areas. During the period under review, the Group continued to upgrade and renovate stores, optimized store distribution and product structure and made improvements in sales, management and services.

During the period under review, the Group continued to expand customer base through ecosystem development and achieved electronic customer information management. Diversified promotion activities were launched, including "Huiyin Spring Home Improvement Festival (滙銀春季家裝節)", "Brand Special Group Purchase (品牌專場團購)" and "Horizontal Alliance Special Promotion (異業聯盟專場促銷)", which offered more concessions to consumers and contributed to the Group's sales revenue.

In respect of brand marketing, by way of combing traditional home appliance marketing strategies and innovative media, the Group increased the awareness of "Huiyin" brand. During the period under review, in addition to cooperating with multi-media channels including TV, radio and internet, the Group started to promote through mobile devices to improve the communication and interaction with members of Huiyin.

Information technology system construction and information monitoring

The Group is committed to integrating and reforming its existing information management system to cope with its business growth and to obtain sufficient information for use by the Group and its franchised stores and in turn optimize its operations and management. During the period under review, the Group implemented "Huiyin e-commerce platform" to integrate the management of inventory and logistic system. Furthermore, the Group launched mobile communication platform to optimize customer experience and improve the efficiency of client services.

Information-based human resources management

As at 30 June 2014, the Group had 908 employees. During the period under review, the Group continued to optimize its human resources management structure and improve the skills of its employees. Through participating in diversified training sessions, the staff has developed their skills while gaining expertise. Meanwhile, the Group communicated with its employees regarding career planning and occupational health through "enterprise culture building", and provided them with new insights in terms of career development. During the period under review, the Group organised over 91 training sessions in various aspects, with a total of approximately 4,500 participating employees.

Outlook

In the second half of 2014, challenges will remain for the global economy, retail business such as the home appliances industry will continue to face huge pressure. Other than the steady demand from first-time buyers, China's consumption of household appliances now mainly derives from the need for replacement and upgrade. The growing size of cities with the progress of China's urbanization, the increase in residential income in third and fourth-tier cities and the improvement in housing conditions will support the growth of demand for home appliances and become new growth drivers for the market.

In the second half of 2014, the Group will take innovative measures in three aspects — store distribution, brand building and human resources. In view of the urbanization, the Group will implement a strategy of "urbanize chain store development", which will enable the Group to expand its sales network in target markets to increase sales revenue, and to further increase its market share and solidify its market position through upgrading and integration of existing network in the third and fourth-tier markets. Meanwhile, the Group will actively implement its brand marketing strategy, enhance its brand image (including further optimization of the Group's integrated e-commerce platform covering various aspects such as procurement, sales and customer services) and improve the Group's overall asset management efficiency, so as to deepen the Group's relationship with suppliers and customers. In addition, the Group plans to strengthen corporate culture, internal management and upgrade the development of "Huiyin Business School" in order to train more retail talents and provide customers with professional services.

Looking ahead to the coming year, the Group will deploy its network according to the "chain store" expansion plan and to develop a strategic alliance with its suppliers, to maintain the Group's leading position in the target markets. The Group will further reinforce the awareness of the "Huiyin" brand in domestic household appliance market through retailing, agency sales, franchise and after-sales services combined with the development of e-commerce platform. On 15 May 2014, the Group announced that it had a positive outlook of the mobile telecommunications business in light of the increasing demand in such market and, therefore, decided to, leveraging on the Group's established channel of retail sales and experience on sales of mobile phones, engage in the mobile telecommunications re-sale business. The Group intended to study any business opportunity in the mobile telecommunications services industry. On 3 June 2014, 15 June 2014 and 6 July 2014 the Group entered into a sport lottery agency sales agreement, welfare lottery agency sales agreements and a strategic cooperation agreement of sport lotteries with relevant local authorities respectively. The Group was authorised to sell lottery as agent through its sales channel (including self-operated shops, franchised shops and other distribution network, totally approximately 1,659 points of sales) in Jiangsu Province. On 16 August 2014, the Group entered into a welfare lottery agency sales agreement with relevant local authorities. The Group was authorised to sell welfare lottery as agent through its sales channel (including self-operated shops, franchised shops and other distribution network, totally approximately 686 points of sales) in Auhui Province. The Group will engage in household appliances, mobile telecommunication re-sale and lottery sales business to seek strong growth drivers. Through these strategies, the board (the "Board") of directors (the "Directors") believe that the Group can achieve sustainable business expansion and fully improve its operational efficiency and profitability, thus creating better returns for its shareholders and investors.

FINANCIAL REVIEW

Revenue

During the period under review, due to the business development, the recovery in the household appliances consumer market and accelerated urbanization of rural area despite impact of macro-economic slowdown and expiration of the subsidies for energy-efficient household appliances in 2013, the Group's revenue was approximately RMB1,538.3 million, representing an increase of 16.9% from approximately RMB1,316.2 million for the same period of 2013.

Turnover of the Group comprises revenues by operation as follows:

	Six months ended 30 June			
	2014		2013	
	RMB'000		RMB'000	
Retail	**449,997**	**29.3%**	462,923	35.2%
Bulk distribution				
– Sales to franchisees	**51,780**	**3.4%**	253,103	19.2%
– Sales to other retailers and distributors	**1,029,511**	**66.9%**	595,302	45.2%
Rendering of services	**7,051**	**0.4%**	4,868	0.4%
Total revenue	**1,538,339**	**100.0%**	1,316,196	100.0%

In the first half of 2014, the increase in sales to other retailers and distributors and rendering of services was mainly attributable to the business development, the recovery in the household appliances consumer market and accelerated urbanization of rural area. Meanwhile, sales to franchisees decreased because the Group adjusted some of the franchised stores to third party distributors at the end of 2013, which also led to the increase in sales to other other retailers and distributors.

The following table sets out the Group's revenue derived from sales of merchandise through our retail and bulk distribution operations by products categories during the period under review:

	Six months ended 30 June			
	2014		2013	
	RMB'000		RMB'000	
Air-conditioners	**1,175,269**	**76.8%**	819,372	62.5%
TV sets	**168,925**	**11.0%**	291,190	22.2%
Refrigerators	**79,423**	**5.2%**	90,282	6.9%
Washing machines	**44,015**	**2.9%**	49,230	3.8%
Others	**63,656**	**4.1%**	61,254	4.6%
Total revenue	**1,531,288**	**100.0%**	1,311,328	100.0%

The percentage of air-conditioner sales increased in the first half of 2014, which was mainly attributable to the expansion of distribution network for such products. The percentage of TV set sales decreased, which was mainly attributable to a decline in TV market demand.

Cost of sales

Cost of sales increased by approximately 19.1% from RMB1,135.7 million for the six months ended 30 June 2013 to RMB1,352.5 million for the six months ended 30 June 2014, primarily due to an increase in sales volume. The rate of increase in cost of sales was higher than that of our revenue principally because of the increasing pricing pressure in the household appliance industry and fierce competing environment.

Gross profit

Our gross profit increased by approximately 3.0% from RMB180.5 million for the six months ended 30 June 2013 to RMB185.9 million for the six months ended 30 June 2014.

Gross profit margin of the Group by operation is as follows:

	Six months ended 30 June	
	2014	2013
Retail	**16.6%**	18.6%
Bulk distribution	**9.9%**	10.8%
Rendering of services	**61.4%**	65.7%
Overall	**12.1%**	13.7%

The decrease in gross profit margin of our retail and bulk distribution operations was mainly due to the increasing competition faced by the overall household appliances industry which led to great pressure on product selling price.

Other income

During the period under review, the Group recorded other income of approximately RMB6.7 million, representing a slight decrease from approximately RMB7.2 million for the same period in 2013.

Other (losses)/gains

During the period under review, the Group recorded other losses of approximately RMB1.6 thousand, while other gains of approximately RMB3.1 million was recorded for the same period in 2013. The gains in comparative period mainly included the receipt of insurance claim income amounting to RMB6.4 million arising from the fire which broke out on 25 October 2012.

Selling and marketing expenses

During the period under review, the Group's total selling and marketing expenses amounted to approximately RMB70.9 million, representing a decrease from approximately RMB81.9 million for the same period in 2013, which was in line with the decrease of store number.

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

	Six months ended 30 June	
	2014	2013
Employee benefit expenses	**1.14%**	1.23%
Service charges	**0.21%**	0.20%
Operating lease expenses in respect of buildings and warehouses	**1.33%**	2.18%
Promotion and advertising expenses	**0.62%**	0.72%
Depreciation of property, plant and equipment	**0.50%**	0.81%
Utilities and telephone expenses	**0.20%**	0.22%
Transportation expenses	**0.44%**	0.52%
Travelling expenses	**0.06%**	0.07%
Others	**0.11%**	0.27%
Total selling and marketing expenses	**4.61%**	6.22%

The decrease of percentage of selling and marketing expenses was mainly due to the increase of sales and decrease of selling and marketing expenses because of improvement in cost efficiency.

Administrative expenses

During the period under review, the Group's total administrative expenses amounted to approximately RMB17.2 million, representing a significant decrease from approximately RMB221.1 million for the same period of 2013, which was mainly due to the reversal of provision for impairment on receivables.

The following table sets out a summary for administrative expenses:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Employee benefit expenses	**18,177**	18,866
Pre-IPO share option expenses	**—**	602
Operating lease expenses in respect of buildings	**1,235**	2,735
Utilities and telephone expenses	**772**	1,121
Travelling expenses	**902**	720
Auditors' remuneration	**1,475**	1,525
Consulting expenses	**285**	830
Amortisation and depreciation	**4,359**	1,807
(Reversal)/Accrual of provision for impairment on receivables	**(32,409)**	174,171
Others	**22,365**	18,708
Total administrative expenses	**17,161**	221,085

The provision for impairment on receivables was mainly due to making of certain provision for receivables from suppliers after taking into account of increased operating pressure of upstream companies in the industry since the second half year of 2012. During the period under review, contributable to the recovery of operation in upstream industry, the speed up of settlement of supplier rebates receivable had led to a better ageing and a lower balance of provision for impairment, and brought about the reversal of provision.

Operating profit /(loss)

Profit from operations was approximately RMB104.5 million for the six months ended 30 June 2014, while there was loss from operations of approximately RMB112.2 million for the same period in 2013. The profit was mainly due to the combining effect of the increase in the gross profit and the decrease in operating expenses.

Finance costs — net

During the period under review, the Group's net finance costs was approximately RMB22.0 million, representing an increase from approximately RMB13.7 million for the six months ended 30 June 2013, which was mainly due to the foreign exchange losses on bank borrowings as a result of volatility in exchange rate of the RMB against the US dollar.

Share of loss of a joint venture

During the period under review, the share of loss of a joint venture amounting to RMB5.7 million was share of loss of Yangzhou Huiyin Real Estate Co., Ltd. ("Huiyin Real Estate"), which had became a joint venture because of a co-operation agreement signed by the Group and Shanghai Coastal Weiying Equity Investment Fund Management Co., Ltd. ("Weiying") on 27 January 2014 to jointly control the legal and financial operations of Huiyin Real Estate to develop the land parcel owned by Huiyin Real Estate. The Group recognises the share of profit and loss of Huiyin Real Estate by applying equity method. The loss of Huiyin Real Estate was mainly due to the interest expense from borrowing owed to the Group, which was previously an intra-group charges.

Profit /(loss) before income tax

During the period under review, the profit before income tax was approximately RMB76.8 million, while there was loss before income tax of approximately RMB125.9 million for the same period of 2013.

Income tax

During the period under review, the Group's income tax expense was approximately RMB30.9 million, representing 40.2% of the profit before income tax, while there was income tax credit of approximately RMB21.5 million, representing 17.1% of the loss before income tax for the same period of 2013.

Profit/(loss) attributable to equity holders of the Company

The Group's profit attributable to equity holders for the period under review was approximately RMB41.3 million, while there was loss attributable to equity holders of approximately RMB104.0 million for the same period in 2013.

Investment in and borrowing to a joint venture

As announced by the Company on 27 January 2014, the Group entered into a co-operation agreement with Weiying which became effective on 4 March 2014 in respect of the development of the land parcel acquired by Huiyin Real Estate in 2011. Under the co-operation agreement, Huiyin Real Estate, which was a 100% controlled subsidiary of the Company previously, would be the entity undertaking the project. The Group and Weiying would jointly control the legal and financial operations as well as other key relevant activities of Huiyin Real Estate. Accordingly, Huiyin Real Estate became a joint venture and its assets and financial results ceased to be consolidated in the accounts of the Group. The Group recognised its interest in Huiyin Real Estate as an investment in joint venture which includes capital contributed of RMB50.0 million and share of loss of RMB28.4 million as at 30 June 2014.

Borrowing to Huiyin Real Estate as at 30 June 2014 includes principal amount of RMB197.2 million and interest receivable of RMB37.8 million. The borrowing carries an interest calculated at compound rate of 6.6% per annum which will be settled together with the principal amount upon the completion of the property project being undertaken by Huiyin Real Estate.

The Group intended to begin the construction on the land parcel in the second half of 2014.

Cash and cash equivalents

As at 30 June 2014, the Group's cash and cash equivalents were approximately RMB58.5 million, representing a decrease of 61.6% from approximately RMB152.2 million at the end of 2013.

Inventories

As at 30 June 2014, the Group's inventories amounted to approximately RMB444.0 million, representing a decrease from RMB678.3 million at the end of 2013, which was mainly due to the exclusion of the cost of a land parcel amounting to RMB244.6 million owned by Huiyin Real Estate. Huiyin Real Estate had became a joint venture under the co-operation agreement dated 27 January 2014 and its assets, liabilities and financial results ceased to be consolidated in the accounts of the Group.

Prepayments, deposits and other receivables

As at 30 June 2014, prepayments, deposits and other receivables of the Group amounted to approximately RMB1,145.2 million, representing an increase from approximately RM958.1 million at the end of 2013.

Trade and bills receivables

As at 30 June 2014, trade and bills receivables of the Group amounted to approximately RMB88.3 million, representing a decrease from approximately RMB131.8 million at the end of 2013, which was mainly due to the decrease of bills receivable.

Trade and bills payables

As at 30 June 2014, trade and bills payables of the Group amounted to approximately RMB983.9 million, representing an increase from approximately RMB936.6 million at the end of 2013.

Gearing ratio and the basis of calculation

As at 30 June 2014, gearing ratio of the Group was 58.9%, representing a decrease from 61.3% as at 31 December 2013. The gearing ratio is equal to total borrowings divided by the sum of total equity and total borrowings.

Capital expenditure

During the period under review, capital expenditure of the Group amounted to approximately RMB16.7 million, representing a decrease from approximately RMB22.2 million for the same period in 2013.

Cash flows

During the period under review, net cash outflow from operating activities of the Group amounted to approximately RMB29.9 million as compared to approximately RMB117.0 million for the same period in 2013. The lower net cash outflow was mainly due to the better control in the working capital compared with the same period in 2013.

Net cash outflow from investing activities amounted to approximately RMB18.9 million as compared to approximately RMB24.2 million for the same period in 2013.

Net cash outflow from financing activities amounted to approximately RMB44.9 million, while there was net cash inflow from financing activities amounted to approximately RMB191.4 million for the same period in 2013, which was mainly due to the decrease of proceeds from bank borrowings.

Liquidity and financial resources

During the period under review, the Group's working capital, capital expenditure and cash for investment were funded from cash on hand, bank borrowings, medium-term notes and IPO proceeds. As at 30 June 2014, the interest-bearing bank borrowings of the Group amounted to RMB1,111.9 million, representing a decrease from RMB1,149.9 million as at 31 December 2013.

Pledging of assets

As at 30 June 2014, the Group's pledged bank deposits and merchandise held for resale amounted to RMB1,091.4 million and RMB90.0 million respectively. Certain land use rights, buildings and investment properties with a total net book amount of RMB178.2 million had been pledged.

Contingent liabilities

As at 30 June 2014, the Group had no contingent liabilities which have not been properly accrued for except for certain unfounded legal claims which the Group does not expect that it will incur any loss.

Foreign currencies and treasury policy

The majority of the Group's income and expenses were denominated in Renminbi ("RMB").

USE OF FUNDS RAISED FROM INITIAL PUBLIC OFFERING

On 25 March 2010, the shares of our Company were successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Our initial public offering ("IPO") was well received by investors in both the international offering and the Hong Kong public offering. Net proceeds raised from our initial public offering ("IPO") were approximately HK$458.9 million (equivalent to approximately RMB403.5 million).

As stated in the prospectus of the Company dated 12 March 2010, we intend to use approximately HK$156.5 million (equivalent to approximately RMB137.9 million) for expansion of our retail network, approximately HK$203.2 million (equivalent to approximately RMB178.3 million) for potential acquisitions of home appliances and electronics retail enterprises in eastern China which target at the third and fourth-tier markets, approximately HK$55.0 million (equivalent to approximately RMB48.4 million) for expansion of our existing distribution and logistics centers in Jiangsu Province, approximately HK$5.0 million (equivalent to approximately RMB4.4 million) for improving our existing information and management systems, and approximately HK$39.2 million (equivalent to approximately RMB34.5 million) as our general working capital.

As at 30 June 2014, our use of net proceeds raised from IPO was as follows:

	Net proceeds from IPO	
	Available to utilise (RMB million)	Utilised (up to 30 June 2014) (RMB million)
Expansion of retail network	137.9	137.9
Acquisitions of home appliances and electronics retail enterprises	178.3	68.3
Expansion of distribution and logistics centers in Jiangsu Province	48.4	48.4
Improving information and management systems	4.4	3.7
General working capital	34.5	34.5
	403.5	292.8

The remaining net proceeds were held by us in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC. The remaining net proceeds will be applied in the manner as stated in the prospectus of the Company dated 12 March 2010.

EMPLOYMENT AND REMUNERATION POLICY

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

HUMAN RESOURCES

As at 30 June 2014, the Group had 908 employees, down 0.7% from 914 at the end of 2013.

INTERIM DIVIDEND

The Board of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2014.

SHARE OPTION SCHEMES

On 5 March 2010, we have adopted a share option scheme (the "Share Option Scheme") and a pre-IPO option scheme (the "Pre-IPO Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Share Option Scheme and the Pre-IPO Option Scheme include, without limitation, directors and employees of the Company, or any of its subsidiaries or associated companies. Up to 30 June 2014 and as at the date of this interim report, no share option has been granted or agreed to be granted to any person under the Share Option Scheme.

The following directors and senior management were granted the share options to subscribe for up to 50,000,000 shares of the Company ("Shares") pursuant to the Pre-IPO Option Scheme (the "Pre-IPO Options"):

	Number of Pre-IPO Options				
Name	As at 1 January 2014	Granted during the period	Exercised during the period	As at 30 June 2014	Approximate percentage of interest in the Company
Cao Kuanping *Chairman and Executive Director*	25,000,000	–	–	25,000,000	2.38%
Mo Chihe *Executive Director*	3,000,000	–	–	3,000,000	0.29%
Mao Shanxin *Executive Director*	10,000,000	–	–	10,000,000	0.95%
Wang Zhijin *Executive Director and Chief Financial Officer*	3,000,000	–	–	3,000,000	0.29%
Lu Chaolin *Executive Director and Vice General Manager*	3,000,000	–	–	3,000,000	0.29%
Gao Yuan *General manager of Yangzhou Hengxin Air-conditioner Sales Co., Ltd.*	3,000,000	–	–	3,000,000	0.29%
Sun Qingxiang *General manager of Yangzhou Huide Electronics Distribution Co., Ltd.*	3,000,000	–	–	3,000,000	0.29%

The Pre-IPO Options may only become exercisable in accordance with the following vesting schedule:

(i) one-third of Pre-IPO Options (rounded down to the nearest whole number) shall be exercisable at any time during the period commencing on 25 March 2011 and ending on 25 March 2015;

(ii) one-third of Pre-IPO Options (rounded down to the nearest whole number) shall be exercisable at any time during the period commencing on 25 March 2012 and ending on 25 March 2015; and

(iii) the remaining number of Pre-IPO Options shall be exercisable at any time during the period commencing on 25 March 2013 and ending on 25 March 2015.

The subscription price payable upon the exercise of any Pre-IPO Options is fixed at HK$1.521. No further options will be offered under the Pre-IPO Option Scheme. Details of the valuation of the Pre-IPO Options are set out in note 17(a) to the unaudited condensed consolidated interim financial statements of this interim report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests or short positions of the Directors and chief executives of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which had to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Name of corporation	Capacity and nature of interest	Aggregate number of ordinary shares or underlying shares	Approximate percentage of interest in the corporation
Cao Kuanping	The Company	Interest of controlled corporation	257,803,625 Shares (L)	24.59%
	The Company	Beneficial owner	50,000,000 underlying Shares (L)	4.77%
Lu Chaolin	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%
Mo Chihe	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%
Mao Shanxin	The Company	Beneficial owner	10,000,000 underlying Shares (L)	0.95%
	The Company	Beneficial owner	10,000,000 underlying Shares (S)	0.95%
Wang Zhijin	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%

(L) denotes long position and (S) denotes short position.

Note:

The Company granted 25,000,000 Pre-IPO Options, 3,000,000 Pre-IPO Options, 10,000,000 Pre-IPO Options, 3,000,000 Pre-IPO Options and 3,000,000 Pre-IPO Options to Mr. Cao Kuanping ("Mr. Cao"), Mr. Mo Chihe, Mr. Mao Shanxin, Mr. Wang Zhijin and Mr. Lu Chaolin, to subscribe for 25,000,000 Shares, 3,000,000 Shares, 10,000,000 Shares, 3,000,000 Shares and 3,000,000 Shares, respectively, pursuant to the Pre-IPO Option Scheme. Each of Mr. Mo Chihe, Mr. Mao Shanxin, Mr. Wang Zhijin, Mr. Lu Chaolin, Mr. Gao Yuan and Mr. Sun Qingxiang, who are grantees of an aggregate of 25,000,000 Pre-IPO Options to subscribe for an aggregate of 25,000,000 Shares, undertakes to Mr. Cao that if he proposes a sale of the Shares issued and allotted to him upon the exercise of the Pre-IPO Options, he will give a written notice to Mr. Cao and Mr. Cao has an option for a period of two days from the date of notice (inclusive of the date of notice) to purchase the Shares to be sold at the closing price of the Shares as traded on the Stock Exchange on the date of notice.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 30 June 2014, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Name of corporation	Capacity and nature of interest	Aggregate number of ordinary shares	Approximate percentage of interest in the corporation
China Ruike Investment & Development Co., Ltd.	The Company	Beneficial owner	257,803,625 (L)	24.59%
Pope Investments LLC	The Company	Beneficial owner	60,574,843 (L)	5.78%
Pope Asset Management, LLC	The Company	Interest of controlled corporation	60,574,843 (L)	5.78%
William P. Wells	The Company	Interest of controlled corporation	60,574,843 (L)	5.78%
The China Fund, Inc.	The Company	Beneficial owner	160,413,750 (L)	15.30%
Martin Currie Inc.	The Company	Interest of controlled corporation	160,413,750 (L)	15.30%
Martin Currie Limited	The Company	Interest of controlled corporation	160,413,750 (L)	15.30%

(L) denotes long position and (S) denotes short position.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from 1 January 2014 up to the date of this interim report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As set out in note 34(b) to the unaudited condensed consolidated interim financial statements in this interim report, during the six months ended 30 June 2014, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB1,825,000. As disclosed in the announcement dated 18 January 2013 published by the Company, on 18 January 2013, Mr. Cao Kuanping as landlord entered into a tenancy agreement with Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. as tenant (the "Huiyin Tenancy Agreement") and a tenancy agreement with Yangzhou Huide Electronics Distribution Co., Ltd. as tenant (the "Huide Tenancy Agreement", together with the Huiyin Tenancy Agreement, the "Tenancy Agreements"). Mr. Cao, who is the Chairman and an executive Director of the Company, is a connected person of the Company, and accordingly, the Tenancy Agreements constitute continuing connected transactions of the Company under the Listing Rules. As the applicable percentage ratios on an annual basis calculated with reference to the aggregate annual rents payable by the Group to Mr. Cao under the Tenancy Agreements are more than 0.1% but less than 5% and the aggregate annual rents payable are more than HK$1,000,000, under Rule 14A.76 of the Listing Rules, the Tenancy Agreements are subject to the announcement and annual reporting requirements set out in Rules 14A.35, 14A.49 and 14A.71 of the Listing Rules, the annual review requirements set out in Rules 14A.55 to 14A.59 and the requirements set out in Rules 14A.34, 14A.51 to 14A.54 but is exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to enhancing the corporate governance of the Group, and the Board reviews and updates all necessary measures in order to promote good corporate governance.

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "Code"), contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014 except with the following deviation.

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

Since the establishment of the Company, Mr. Cao Kuanping has been the Chairman and Chief Executive Officer of the Company and that the functions of the Chairman and Chief Executive Officer in the Company's strategic planning and development process overlap. This constitutes a deviation from code provision A.2.1 of the Code. However, the Board considered that the Group has been operating well under the current arrangement, and thus it might not be beneficial to the Company and its shareholders as a whole to change the current arrangement and have separate individuals occupying the offices of Chairman and Chief Executive Officer given the current operating scale of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all Directors and the Directors have confirmed compliance with the required standard set out in the Model Code during the period from 1 January 2014 to 30 June 2014.

CHANGES IN DIRECTORS' INFORMATION

Mr. Wang Zhijin, an executive Director, was appointed as a director of 上海廣邗貿易有限公司 (Shanghai Guanghan Trading Co., Ltd.*) on 12 February 2014.

The English name of the PRC entity mentioned above marked "" is the translation from its Chinese name and is for identification purpose only. If there is any inconsistency, the Chinese name shall prevail.*

AUDIT COMMITTEE

The Audit Committee of the Company comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Zhou Shuiwen and Mr. Lo Kwong Shun Wilson. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the Code issued by the Stock Exchange. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 June 2014. In addition, the Company's auditor PricewaterhouseCoopers has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained a sufficient public float throughout the period from 1 January 2014 to 30 June 2014, and up to the date of this interim report.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2014.

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 21 August 2014

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	22,608	22,887
Property, plant and equipment	7	194,761	186,803
Investment properties	7	5,830	5,915
Intangible assets	8	37,502	38,001
Investment in and borrowing to a joint venture	9	256,648	—
Deferred income tax assets	10	130,781	145,610
Receivables	11	2,910	2,910
		651,040	402,126
Current assets			
Inventories	12	443,954	678,345
Trade and bills receivables	13	88,284	131,809
Prepayments, deposits and other receivables	14	1,145,177	958,133
Restricted bank deposits	15	1,091,408	965,265
Cash and cash equivalents	16	58,468	152,235
		2,827,291	2,885,787
Total assets		3,478,331	3,287,913
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	7,162	7,162
Reserves		728,021	684,472
		735,183	691,634
Non-controlling interests in equity		41,534	35,852
Total equity		776,717	727,486

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	550,797	608,158
Deferred income tax liabilities	10	211	211
Deferred government grants	21	2,818	2,876
		553,826	611,245
Current liabilities			
Trade and bills payables	18	983,883	936,564
Accruals and other payables	19	433,789	319,735
Borrowings	20	561,074	541,774
Current income tax liabilities		115,482	97,549
Other current liabilities	22	53,560	53,560
		2,147,788	1,949,182
Total liabilities		2,701,614	2,560,427
Total equity and liabilities		3,478,331	3,287,913
Net current assets		679,503	936,605
Total assets less current liabilities		1,330,543	1,338,731

The notes on pages 27 to 66 are an integral part of these condensed consolidated interim financial statements.

	Note	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
Revenue	23	1,538,339	1,316,196
Cost of sales	26	(1,352,456)	(1,135,720)
Gross profit		185,883	180,476
Other income	24	6,693	7,185
Other (losses)/gains — net	25	(2)	3,123
Selling and marketing expenses	26	(70,942)	(81,884)
Administrative expenses	26	(17,161)	(221,085)
Operating profit/(loss)		104,471	(112,185)
Finance income	27	24,056	24,780
Finance costs	27	(46,036)	(38,503)
Finance costs — net	27	(21,980)	(13,723)
Share of loss of a joint venture	9	(5,698)	—
Profit/(loss) before income tax		76,793	(125,908)
Income tax (expense)/credit	28	(30,882)	21,473
Profit/(loss) for the period		45,911	(104,435)
Attributable to:			
– Equity holders of the Company		41,321	(103,987)
– Non-controlling interests		4,590	(448)
		45,911	(104,435)
Earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	29	3.94	(9.92)
– Diluted	29	3.24	(8.62)
Dividends	30	—	—

The notes on pages 27 to 66 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Profit/(loss) for the period	45,911	(104,435)
Other comprehensive income or loss	—	—
Total comprehensive income/(loss) for the period	45,911	(104,435)
Attributable to:		
– Equity holders of the Company	41,321	(103,987)
– Non-controlling interests	4,590	(448)
	45,911	(104,435)

The notes on pages 27 to 66 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited							
		Attributable to equity holders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013		7,162	827,784	28,007	(58,034)	38,096	843,015	40,326	883,341
Loss/Total comprehensive loss for the six months ended 30 June 2013		–	–	–	–	(103,987)	(103,987)	(448)	(104,435)
Dividend paid by a subsidiary to non-controlling interests		–	–	–	–	–	–	(100)	(100)
Pre-IPO Option Scheme – value of employee services	26	–	–	–	602	–	602	–	602
Acquisition of additional equity interest in a subsidiary from non-controlling interests	33	–	–	–	(2,228)	–	(2,228)	(12,772)	(15,000)
Balance at 30 June 2013		7,162	827,784	28,007	(59,660)	(65,891)	737,402	27,006	764,408
Balance at 1 January 2014		7,162	827,784	28,007	(59,660)	(111,659)	691,634	35,852	727,486
Profit/Total comprehensive income for the six months ended 30 June 2014		–	–	–	–	41,321	41,321	4,590	45,911
Dividend paid by a subsidiary to non-controlling interests		–	–	–	–	–	–	(100)	(100)
Deemed disposal of a subsidiary with loss of control	33	–	–	–	2,228	–	2,228	1,192	3,420
Balance at 30 June 2014		7,162	827,784	28,007	(57,432)	(70,338)	735,183	41,534	776,717

The notes on pages 27 to 66 are an integral part of these condensed consolidated interim financial statements.

	Note	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
Cash flows from operating activities:			
Cash generated from/(used in) operations		3,711	(92,286)
Interest paid		(26,859)	(24,237)
Income tax paid		(6,800)	(514)
Net cash used in operating activities		(29,948)	(117,037)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(16,446)	(24,294)
Purchase of land use rights	7	—	(6,049)
Purchase of intangible assets	8	(190)	—
Proceeds from disposal of property, plant and equipment		83	297
Cash disposed arising from deemed disposal of a subsidiary with loss of control	33	(7,963)	—
Additional borrowing to a joint venture		(39)	—
Interest received		5,689	5,864
Net cash used in investing activities		(18,866)	(24,182)
Cash flows from financing activities:			
Proceeds from bank borrowings	20	178,200	807,411
Repayments of bank borrowings	20	(223,000)	(513,239)
Restricted bank deposits pledged for bank borrowings		—	(87,701)
Dividend paid by a subsidiary to non-controlling interests		(100)	(100)
Acquisition of additional equity interest in a subsidiary from non-controlling interests	33	—	(15,000)
Net cash (used in)/generated from financing activities		(44,900)	191,371
(Decrease) /increase in cash and cash equivalents		(93,714)	50,152
Cash and cash equivalents at beginning of the period	16	152,235	75,198
Exchange differences on cash and cash equivalents		(53)	(1,547)
Cash and cash equivalents at end of the period	16	58,468	123,803

The notes on pages 27 to 66 are an integral part of these condensed consolidated interim financial statements.

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.

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

The Group's businesses were primarily carried out by Yangzhou Huiyin Household Appliance (Group) Co., Ltd. ("Yangzhou Huiyin", formerly known as "Yangzhou Huiyin Household Appliance Co., Ltd.") and its subsidiaries. In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), certain reorganisation steps (the "Reorganisation") were carried out in 2008. After the completion of the Reorganisation on 3 April 2008, the Company became the holding company of the subsidiaries comprising the Group.

The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 March 2010.

2 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2014 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

These condensed consolidated interim financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated and were approved by the Company's board of directors on 21 August 2014.

These condensed consolidated interim financial statements have not been audited.

3 ACCOUNTING POLICIES

Except as stated below for new account items or which is specific for the interim period, the accounting policies applied are consistent with those used for and described in the annual consolidated financial statements of the Company for the year ended 31 December 2013.

(a) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of a new joint arrangement effective in this period regarding the operations of a previously 100% controlled subsidiary and determined it to be a joint venture. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

New/revised standards, amendments and interpretations to existing standards mandatory for the financial year beginning on 1 January 2014 that are relevant to the Group's operations

- HKAS 32 (Amendment) "Financial Instruments: Presentation" on offsetting financial assets and financial liabilities. The amendment clarifies the requirements for offsetting financial instruments on the balance sheet: (i) the meaning of 'currently has a legally enforceable right of set-off'; and (ii) that some gross settlement systems may be considered as equivalent to net settlement systems.

- HKAS 36 (Amendment) "Impairment of Assets" regarding recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- HKAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" regarding novation of derivatives. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

- HK(IFRIC) 21 "Levies". This is an interpretation of HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

3 ACCOUNTING POLICIES *(continued)*

The adoption of the above new amendments and interpretation starting from 1 January 2014 did not give rise to any significant impact on the Group's results of operations and financial position for the six months ended 30 June 2014.

The Group has not early adopted any new accounting and financial reporting standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial year ending on 31 December 2014.

4 ESTIMATES

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk, and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013.

There have been no changes in the risk management department since year end or in any risk management policies.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

5.2 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities from commercial banks and the ability to close out market positions.

The table below analyses the Group's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 3 months RMB'000	Between 3 to 6 months RMB'000	Between 6 to 12 months RMB'000	Between 1 to 2 years RMB'000	Between 2 to 3 years RMB'000
As at 30 June 2014					
Borrowings (Note 20)	211,373	159,973	189,728	556,126	–
Interest payments on borrowings (note)	11,068	10,051	18,054	4,811	–
Trade and bills payables (Note 18)	659,040	324,843	–	–	–
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 19)	101,028	–	–	–	–
	982,509	494,867	207,782	560,937	–
As at 31 December 2013					
Borrowings (Note 20)	65,000	229,938	246,836	615,585	–
Interest payments on borrowings (note)	11,434	9,648	16,500	19,443	–
Trade and bills payables (Note 18)	739,299	197,265	–	–	–
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables, salary and welfare payables and advance from a fund company (Note 19)	80,482	–	–	–	–
	896,215	436,851	263,336	635,028	–

Note:

The interest payments on borrowings are calculated based on borrowings held as at 30 June 2014 and 31 December 2013 respectively without taking into account of future borrowings.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

5.3 Fair value estimation

The different levels of valuation method for derivatives and other financial instruments carried at fair value are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values of contingent consideration arising from the business combination (Note 22) were measured at fair value by Level 3. Derivative financial instruments were measured at fair value by Level 2.

5.4 Valuation techniques used to derive Level 2 fair values

Level 2 derivative financial instruments comprise forward foreign exchange contracts which had all been settled as at 30 June 2013. These forward foreign exchange contracts had been fair valued using forward exchange rates that are quoted in an active market. Losses from re-measurement and settlement of forward foreign exchange contracts amounted to RMB1,362,000 for the six months ended 30 June 2013 (Note 25).

5.5 Fair value measurements using significant unobservable inputs (Level 3)

	Contingent consideration Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Opening balance	**53,560**	51,659
Losses recognised in profit and loss	**—**	1,101
Closing balance	**53,560**	52,760
Change in unrealised losses for the period included in profit or loss for assets/liabilities held at the end of the reporting period, under 'Other gains/(losses) - net' (Note 25)	**—**	1,101

The discount rate used to compute the fair value was 23%. If the change in the discount rate for the contingent consideration shifted +/- 2%, the impact on profit or loss would be RMB60,000 for the six months ended 30 June 2013. The higher the discount rate, the lower the fair value.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

5.6 Group's valuation processes

The Group's finance department includes a team that performs the valuations of financial assets and liabilities required for financial reporting purposes, including Level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates.

The main Level 3 input used by the Group pertains to the discount rate for contingent consideration. It is estimated based on the market conditions.

5.7 Fair values of financial assets and liabilities measured at amortised cost

As at 30 June 2014 and 31 December 2013, the fair values of all financial assets and liabilities approximate their carrying amounts.

6 SEGMENT INFORMATION

The chief operating decision-maker ("CODM"), being the chairman and 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 based on the reports reviewed by the chairman and executive directors that are used to make strategic decisions.

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

The principal operation of the Group is organised into two main operating segments:

- Retail sales operation
- Bulk distribution sales operation which includes sales to franchisees and other retailers and distributors

Other operations of the Group mainly comprise provision of maintenance and installation services to customers, and real estate business.

6 SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2014 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Unallocated* RMB'000	Group RMB'000
Segment revenue	449,997	1,599,522	7,051	–	2,056,570
Inter-segment revenue	–	(518,231)	–	–	(518,231)
Revenue from external customers	449,997	1,081,291	7,051	–	1,538,339
Operating profit/(loss)	22,357	84,275	1,376	(3,537)	104,471
Finance costs - net					(21,980)
Share of loss of a joint venture					(5,698)
Profit before income tax					76,793
Income tax expense					(30,882)
Profit for the period					45,911
Other segment items are as follows:					
Capital expenditure	7,071	9,565	–	39	16,675
Depreciation charge	4,115	5,888	238	–	10,241
Amortisation charge	410	555	–	–	965

6 SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2013 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Unallocated* RMB'000	Group RMB'000
Segment revenue	462,923	1,282,255	4,868	—	1,750,046
Inter-segment revenue	—	(433,850)	—	—	(433,850)
Revenue from external customers	462,923	848,405	4,868	—	1,316,196
Operating profit/(loss)	(34,928)	(76,027)	1,686	(2,916)	(112,185)
Finance costs - net					(13,723)
Loss before income tax					(125,908)
Income tax credit					21,473
Loss for the period					(104,435)
Other segment items are as follows:					
Capital expenditure	11,556	10,665	—	—	22,221
Depreciation charge	7,790	3,775	35	—	11,600
Amortisation charge	69	874	—	—	943

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

6 SEGMENT INFORMATION *(continued)*

Unaudited segment assets and liabilities as at 30 June 2014 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
2014				
Segment assets	274,149	2,244,619	26,391	2,545,159
Unallocated assets				933,172
Total assets				3,478,331
Segment liabilities	107,610	1,349,053	13,395	1,470,058
Unallocated liabilities				1,231,556
Total liabilities				2,701,614

The audited segment assets and liabilities as at 31 December 2013 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
2013				
Segment assets	428,400	1,902,848	264,008	2,595,256
Unallocated assets				692,657
Total assets				3,287,913
Segment liabilities	162,595	791,048	21,254	974,897
Unallocated liabilities				1,585,530
Total liabilities				2,560,427

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

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

Capital expenditure comprises additions to property, plant and equipment, investment properties, land use rights and intangible assets, including additions resulting from acquisitions through business combinations.

7 CAPITAL EXPENDITURE OTHER THAN INTANGIBLE ASSETS

	Land use rights RMB'000	Property, plant and equipment RMB'000	Investment properties RMB'000	Prepayment for land use rights (i) RMB'000
Six months ended 30 June 2013				
Opening net book amount at 1 January 2013	17,355	192,771	6,085	125,047
Additions	6,049	16,172	—	118,056
Transfer out to inventories (Note 12)	—	—	—	(243,103)
Disposals	—	(310)	—	—
Amortisation and depreciation (Note 26)	(239)	(11,515)	(85)	—
Closing net book amount at 30 June 2013	23,165	197,118	6,000	—
Six months ended 30 June 2014				
Opening net book amount at 1 January 2014	22,887	186,803	5,915	—
Additions	—	18,513	—	—
Disposals	—	(85)	—	—
Deemed disposal of a subsidiary with loss of control (Note 33)	—	(314)	—	—
Amortisation and depreciation (Note 26)	(279)	(10,156)	(85)	—
Closing net book amount at 30 June 2014	22,608	194,761	5,830	—

Note:

(i) In January 2011, the Group succeeded in the bid to acquire the land use rights of a plot of land with an approximate total site area of 26,071 square meters located in Yangzhou City ("Land Parcel") via the public tender auction and listing-for-sale held by Yangzhou Municipal Land Bureau at the total consideration of RMB235,420,000. In accordance with the terms and conditions in the land purchase agreement, a deposit of RMB117,710,000 had been paid by the Group during the year 2011, and the remaining 50% of the consideration, being RMB117,710,000 is to be paid upon the transfer of the Land Parcel from Yangzhou Municipal Land Bureau which shall take place within 300 days from the date of the bid. In the year 2011, the Group established a new subsidiary together with a third party to jointly develop the project on this Land Parcel, which is intended to be a real estate complex, primarily for sale and may include a small portion to be used as a flagship retail store of the Group. The Group originally owned 70% of the equity interests in this subsidiary, and became its sole shareholder since March 2013 (Note 33). This subsidiary has later become a joint venture of the Group in March 2014 (Note 9).

The prepayments for land use rights as at 31 December 2012 represented the 50% of the total consideration and the related deed tax amounting to RMB117,710,000 and RMB7,337,000 respectively. In January 2013, the Group paid the rest of the consideration of RMB117,710,000 and other related expenses of RMB1,801,000 and obtained the land use rights in February 2013. The balance was then transferred to "Inventories" (Note 12).

7 CAPITAL EXPENDITURE OTHER THAN INTANGIBLE ASSETS *(continued)*

All of the Group's land use rights are located in Mainland China and are held on leases between 10 to 50 years.

As at 30 June 2014, land use rights and buildings with a net book amount of RMB12,007,000 and RMB130,188,000 respectively (31 December 2013: RMB12,025,000 and RMB88,163,000 respectively) had been pledged as collateral for the Group's bank borrowings of RMB38,000,000 (31 December 2013: RMB38,000,000) (Note 20).

As at 30 June 2014, land use rights, buildings and investment properties with a net book amount of RMB4,693,000, RMB25,441,000 and RMB5,830,000 respectively together with land use rights of a land parcel owned by a joint venture (Note 9) had been pledged as collateral for the Group's medium-term notes of RMB384,671,000 (Note 20).

As at 31 December 2013, land use rights, buildings and investment properties with a net book amount of RMB4,774,000, RMB25,811,000 and RMB5,915,000 respectively together with property under development – leasehold land to be developed of RMB244,558,000 (Note 12) had been pledged as collateral for the Group's medium-term notes of RMB382,573,000 (Note 20).

Investment properties are located in Mainland China on leases of between 10 to 50 years.

The Group chooses the cost model to account for its investment properties and therefore the difference between the fair value and carrying amount of the investment properties and any changes in fair value are not accounted for in these interim financial statements. The carrying amount of the investment properties would have been RMB7,203,000 had they been stated at fair values as of 30 June 2014 (31 December 2013: RMB7,033,000). The fair values of the investment properties as at 30 June 2014 and 21 December 2013 were based on a review performed by the management of the Group, which were determined by discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question. The fair value measurement falls under Level 3 of the fair value hierarchy.

Amortisation of the Group's land use rights as well as the depreciation of the investment properties have been charged to administrative expenses in the consolidated income statement. The depreciation of property, plant and equipment has been charged to the selling expenses and administrative expenses.

8 INTANGIBLE ASSETS

	Goodwill RMB'000	Distribution agreement RMB'000	Non-compete agreement RMB'000	Computer software RMB'000	Total RMB'000
Six months ended 30 June 2013					
Opening net book amount at 1 January 2013	34,060	—	2,950	2,353	39,363
Amortisation (Note 26)	—	—	(475)	(229)	(704)
Closing net book amount at 30 June 2013	34,060	—	2,475	2,124	38,659
Six months ended 30 June 2014					
Opening net book amount at 1 January 2014	34,060	—	2,000	1,941	38,001
Additions	—	—	—	190	190
Deemed disposal of a subsidiary with loss of control (Note 33)	—	—	—	(3)	(3)
Amortisation (Note 26)	—	—	(475)	(211)	(686)
Closing net book amount at 30 June 2014	34,060	—	1,525	1,917	37,502

The amortisation and impairment of intangible assets have been included in administrative expenses.

Impairment tests for goodwill

Goodwill is allocated to the Group's CGU identified according to operating segment. Goodwill of RMB14,163,000 is allocated to the CGU of Nanjing Chaoming Technology Development Co., Ltd. ("Nanjing Chaoming") and RMB34,060,000 is allocated to the CGU of Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd. ("Huainan Four Seas", formerly known as "Huainan City Four Seas Huiyin Household Appliances Co., Ltd.").

The recoverable amount of a CGU is determined based on higher of value-in-use and fair value less costs to sell calculations. Management determined recoverable amount based on fair value less costs to sell, which is higher than the value-in-use calculations, as the revenue contributing from new stores to open had been taken into the consideration. These calculations use income approach-discounted pre-tax cash flow method based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

8 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill *(continued)*

(a) Impairment test for goodwill arose from the acquisition of Nanjing Chaoming

No impairment charge arose during the course of the six months ended 30 June 2014 as impairment on the goodwill had been fully provided for as at 31 December 2012 (Six months ended 30 June 2013: Nil).

In year 2012, considering the actual business performance of Nanjing Chaoming since the acquisition and severe market environment, the management of the Group believed that Nanjing Chaoming's future performance under existing strategy will no longer meet management's expectation, either the value-in-use or fair value less costs to sell cannot recover the carrying amount of the goodwill as at 31 December 2012, therefore full impairment was provided.

The key assumptions used for fair value less costs to sell calculations of Nanjing Chaoming as at 31 December 2012 are as follows:

	Year ended 31 December				
	2013	**2014**	**2015**	**2016**	**After 2016**
Growth rate of existing scale	30%	15%	15%	10%	Nil
Growth of revenue resulting from new stores to open	30%	20%	10%	8%	Nil
Terminal growth rate	Nil	Nil	Nil	Nil	3%
Discount rate	17.61%	17.61%	17.61%	17.61%	17.61%

The growth rates of existing scale used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

8 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill *(continued)*

(b) Impairment test for goodwill arose from the acquisition of Huainan Four Seas

The key assumptions used for fair value less costs to sell calculations of Huainan Four Seas as at 30 June 2014 and 31 December 2013 are as follows:

	Year ended 31 December		
	2014	**2015**	**After 2015**
Growth rate of existing scale	10%	10%	Nil
Growth of revenue resulting from new stores to open	5%	1%	Nil
Terminal growth rate	Nil	Nil	3%
Discount rate	23%	23%	23%

The growth rates of existing scale used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

No impairment charge arose during the course of the six months ended 30 June 2014 (Six months ended 30 June 2013: Nil).

Impairment charge for distribution agreement arose from the acquisition of Nanjing Chaoming

The distribution agreement arising from the acquisition of Nanjing Chaoming was initially determined at the fair value by applying income approach - multi-period excess earnings method and subject to annual amortisation over the beneficial period of 10 years. As described in the impairment test for goodwill arising from the acquisition of Nanjing Chaoming, the management of Group assessed the recoverable amount of the distribution agreement and concluded that there is no future economic benefits expected, therefore impairment charge of RMB18,342,000 was provided during the course of year 2012, and the carrying amount was reduced to zero as at 31 December 2012 accordingly.

9 INVESTMENT IN AND BORROWING TO A JOINT VENTURE

In January 2014, Yangzhou Huiyin and its wholly-owned subsidiary, Yangzhou Huiyin Real Estate Co., Ltd. ("Huiyin Real Estate") have entered into a co-operation agreement with Shanghai Coastal Weiying Equity Investment Fund Management Co., Ltd. (上海沿海威盈股權投資基金管理有限公司) ("Weiying"), a third party fund company. Pursuant to the agreement, the contracting parties conditionally agreed to co-operate to develop the Land Parcel owned by Huiyin Real Estate (Note 7) (the "Project").

Since Huiyin Real Estate holds the Land Parcel and the consideration and related expenses totalling RMB245 million for the acquisition of the Land Parcel had been fully paid by it, Weiying will bear and contribute from time to time all the development and construction costs for the Project. The estimated costs of development and construction is approximately RMB250 million. Yangzhou Huiyin and Weiying will be entitled to share 52% and 48% of the sales revenue of the Project respectively.

Although Weiying will contribute cash to the Huiyin Real Estate in the form of working capital rather than paid-in capital, under the co-operation agreement, Yangzhou Huiyin and Weiying will jointly control the legal and financial operations as well as other key relevant activities of Huiyin Real Estate. The agreement was approved at the extraordinary general meeting of the Company held on 4 March 2014. Accordingly, Huiyin Real Estate became a joint venture and its assets, liabilities and financial results ceased to be consolidated in the accounts of the Group.

As Weiying had made a prepayment of contribution into Huiyin Real Estate amounted to RMB10 million in 2013 (Note 19), the post-tax loss incurred before the date of loss of control, which was related to the Project and required to be borne by Weiying, had been recognised as loss for the period attributable to non-controlling interests and the carrying amount of non-controlling interests of RMB1,192,000 were derecognised at the date of loss of control.

The Land Parcel is subject to a charge in favour of Jiangsu Province Credit Re-assurance Co. Ltd. (江蘇省信用再擔保有限公司) registered on 5 February 2013. As at 30 June 2014, land use rights of the Land Parcel together with the Group's land use rights, buildings and investment properties with a total net book amount of RMB35,964,000 (Note 7) had been pledged as collateral for the Group's medium-term notes of RMB384,671,000 (Note 20).

	Investment in a joint venture RMB'000	Borrowing to a joint venture RMB'000	Total RMB'000
At 4 March 2014	27,281	227,468	254,749
Additions	—	7,597	7,597
Share of loss	(5,698)	—	(5,698)
At 30 June 2014	21,583	235,065	256,648

As at 30 June 2014, investment in a joint venture included capital contributed of RMB50,000,000 and share of loss of RMB28,417,000 (after netting off excess of consideration paid to previous non-controlling interests of RMB2,228,000), whereas borrowing to a joint venture included principal amount of RMB197,265,000 and interest receivable of RMB37,800,000. The borrowing carried an interest calculated at compound rate of 6.6% per annum which will be settled together with the principal amount upon the completion of the Project undertaken by Huiyin Real Estate.

9 INVESTMENT IN AND BORROWING TO A JOINT VENTURE *(continued)*

Name of entity	Place of business/ country of incorporation	% of ownership interest (i)	Measurement method
Yangzhou Huiyin Real Estate Co., Ltd.	Yangzhou Jiangsu, PRC	94.22	Equity

Note:

(i) The % of ownership interest presented is the investment amount percentage of the Group in the joint venture. The legal ownership structure of Huiyin Real Estate has not been changed and Yangzhou Huiyin is continued to be officially registered as the sole owner. The investment amount percentages of the Group and Weiying are in proportion to the respective aggregated amounts invested by them as at each reporting date. As at 30 June 2014, the investment amount of the Group in Huiyin Real Estate is the aggregate of the consideration for the Land Parcel and related expenses totalling RMB244,558,000, whereas the investment amount of Weiying is the amount of costs and expenses in relation to the Project paid by Weiying totalling RMB15,000,000. The investment amount percentage presented is for reference only. The Group will account for the profit and loss of Huiyin Real Estate and its underlying assets and liabilities by applying equity method in its consolidated financial statements and takes into account of the sharing of revenue and expenses as stipulated under the co-operation agreement which does not necessarily coincide with the investment amount percentage.

Huiyin Real Estate is a private company and there is no quoted market price available for its equity interests.

Commitments and contingent liabilities in respect of the joint venture

The Group has the following commitment relating to the joint venture:

	As at 30 June 2014 RMB'000
Commitment to contribute household appliances	8,000

Since the consideration of the Land Parcel was fully paid by the Group, the Group will only further contribute household appliances to the residential units of the Project, which are estimated to amount to approximately RMB8 million. There are no contingent liabilities relating to the Group's interest in the joint venture.

9 INVESTMENT IN AND BORROWING TO A JOINT VENTURE *(continued)*

Summarised financial information for the joint venture

Set out below are the summarised financial information for Huiyin Real Estate which is accounted for using the equity method.

(a) Summarised balance sheet

	As at 30 June 2014 RMB'000
Current	
Cash and cash equivalents	10,902
Inventories	245,254
Other current assets	241
Total current assets	256,397
Liabilities	(382)
Non-current	
Assets	11,258
Net assets	267,273

9 INVESTMENT IN AND BORROWING TO A JOINT VENTURE *(continued)*

Summarised financial information for the joint venture *(continued)*

(b) Summarised statement of comprehensive income

	From 4 March 2014 (date of loss of control) to 30 June 2014 RMB'000
Revenue	–
Administrative expenses	(1,357)
Finance income	44
Finance costs	(7,558)
Loss before income tax	(8,871)
Income tax credit	2,218
Loss for the period	(6,653)
Other comprehensive income or loss	–
Total comprehensive loss for the period	(6,653)
Dividends received or receivable from the joint venture	–

The information above reflects the amounts presented in the financial statements of the joint venture, and not the Group's share of those amounts.

9 INVESTMENT IN AND BORROWING TO A JOINT VENTURE *(continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interests in the joint venture:

	From 4 March 2014 (date of loss of control) to 30 June 2014 RMB'000
Opening net assets	261,329
Contribution from venturers	12,597
Loss for the period	(6,653)
Closing net assets	267,273
Add/(less): Contribution from Weiying	(15,000)
Accumulated losses derived from expenses related to the Project and required to be borne by Weiying (i)	2,147
Excess of consideration paid to non-controlling interests in 2013 (Note 33)	2,228
Carrying amount	256,648

Note:

(i) As Weiying will bear and contribute from time to time all the costs and expenses relating to the Project, such expenses were not recognised and recorded in the consolidated financial statements of the Group, including the loss of RMB1,192,000 incurred before the date of loss of control which was previously recognised under non-controlling interests and then derecognised at the date of loss of control.

10 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The Group does not have deferred income tax assets and liabilities that are offset against each other and accordingly they are all stated at gross amounts. As at the balance sheet date, the analysis of deferred income tax assets and liabilities are as follows:

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	9,529	9,414
– to be recovered after more than 12 months	121,252	136,196
	130,781	145,610
Deferred income tax liabilities		
– to be settled within 12 months	211	211

The movement on the deferred income tax account is as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
At beginning of the period	145,399	92,077
Recognised in the consolidated income statement (Note 28)	(6,149)	43,193
Deemed disposal of a subsidiary with loss of control (Note 33)	(8,680)	—
At end of the period	130,570	135,270

10 DEFERRED INCOME TAX *(continued)*

The movement in deferred income tax assets and liabilities during the period is as follows:

Deferred income tax assets

	Tax losses RMB'000	Accrued volume discounts to the distributors and franchisees RMB'000	Accrued expenses RMB'000	Unrealised profits elimination RMB'000	Provisions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2013	11,211	2,529	3,078	3,108	70,060	2,302	92,288
Recognised in the consolidated income statement	(1,547)	(81)	513	1,269	43,078	(39)	43,193
At 30 June 2013	9,664	2,448	3,591	4,377	113,138	2,263	135,481
At 1 January 2014	19,016	–	3,238	4,218	117,180	1,958	145,610
Recognised in the consolidated income statement	1,462	3,082	(2,594)	(581)	(7,804)	286	(6,149)
Deemed disposal of a subsidiary with loss of control (Note 33)	(8,602)	–	–	–	–	(78)	(8,680)
At 30 June 2014	11,876	3,082	644	3,637	109,376	2,166	130,781

Deferred income tax liabilities

	Withholding tax on unremitted earnings of PRC subsidiaries RMB'000
At 1 January 2013, 31 December 2013 and 30 June 2014	211

11 RECEIVABLES

In June 2013, the Group's wholly-owned PRC subsidiary Yangzhou Huiyin entered into an agreement to lend RMB2,910,000 to a third party with the duration of 2 years. Interest is charged at 8% per annum.

12 INVENTORIES

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Merchandise held for resale	450,600	438,929
Provision for obsolescence	(6,849)	(5,325)
	443,751	433,604
Property under development – leasehold land to be developed	–	244,558
Low value consumables	203	183
Total	443,954	678,345

As at 30 June 2014, merchandise held for resale of RMB90,000,000 (31 December 2013: Nil) had been pledged as collateral for the Group's bank borrowings of RMB90,000,000 (31 December 2013: Nil) (Note 20).

As at 31 December 2013, property under development – leasehold land to be developed with a net book amount of RMB244,558,000 together with certain land use rights, buildings and investment properties (Note 7) with a total net book amount of RMB36,500,000 had been pledged as collateral for the Group's medium-term notes of RMB382,573,000 (Note 20). For the six months ended 30 June 2014, property under development – leasehold land to be developed was derecognised due to the disposal of a subsidiary with loss of control (Note 9).

13 TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade receivables	67,962	72,676
Less: Provision for impairment	(4,258)	(3,951)
Trade receivables, net	63,704	68,725
Bills receivable	24,580	63,084
Trade and bills receivables, net	88,284	131,809

The credit term 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.

13 TRADE AND BILLS RECEIVABLES *(continued)*

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

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
0 - 30 days	16,475	35,158
31 - 90 days	39,162	19,522
91 - 365 days	4,987	12,173
1 year - 2 years	2,196	4,638
2 years - 3 years	4,651	1,139
Over 3 years	491	46
Total	67,962	72,676

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

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

As at 30 June 2014, no bills receivable had been pledged as collateral for the Group's bank acceptance bills. As at 31 December 2013, bills receivable with a carrying amount of RMB6,700,000 had been pledged as collateral for the Group's bank acceptance bills of RMB6,700,000 (Note 18).

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Advance payments to suppliers	572,072	523,552
Rebates receivable from suppliers, net of provision	508,957	371,315
Prepaid rentals	13,050	13,946
Deposits	5,372	5,500
Other prepayments	955	79
Other receivables from third parties		
– Value added tax recoverable	15,875	23,947
– Interests receivable from banks	23,700	12,891
– Staff advances	1,494	1,787
– Amount paid on behalf of a supplier	499	779
– Others	3,203	4,337
	1,145,177	958,133

Reversal of provision of RMB32,409,000 (Six months ended 30 June 2013: accrual of provision of RMB174,171,000) (Note 26) for impairment of supplier rebates receivable had been recognised during the period. As at 30 June 2014, the balance of provision for impairment of supplier rebates receivable was RMB427,032,000 (31 December 2013: RMB459,441,000). The improved settlement of supplier rebates receivable had led to a better ageing and brought about the reversal of provision.

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

15 RESTRICTED BANK DEPOSITS

As at 30 June 2014, restricted bank deposits of RMB547,408,000 (31 December 2013: RMB421,265,000) had been pledged as collateral for the Group's bank acceptance bills of RMB937,303,000 (31 December 2013: RMB546,134,000) (Note 18).

As at 30 June 2014, restricted bank deposits of RMB544,000,000 (31 December 2013: RMB544,000,000) had been pledged as collateral for the Group's bank borrowings of US$83,000,000, equivalent to RMB510,683,000 (31 December 2013: US$83,000,000, equivalent to RMB506,043,000) (Note 20).

All restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date. The weighted average interest rate per annum on restricted bank deposits was 3.0% at 30 June 2014 (31 December 2013: 3.5%).

16 CASH AND CASH EQUIVALENTS

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Cash on hand		
– denominated in RMB	217	262
Cash at bank		
– denominated in RMB	56,507	149,183
– denominated in HK$	81	36
– denominated in US$	1,663	2,754
	58,251	151,973
	58,468	152,235

As at the balance sheet date, the effective interest rate per annum was as follows:

	As at	
	30 June 2014	31 December 2013
RMB	0.350%	0.350%
HK$	0.001%	0.001%
US$	0.001%	0.001%

17 SHARE CAPITAL

Details of the share capital of the Company are as follows:

	Par value	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
			US$	RMB'000
Six months ended 30 June 2013 and 30 June 2014				
Authorised:				
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	US$0.001	2,000,000,000	2,000,000	10,598
Issued and fully paid:				
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	US$0.001	1,048,342,290	1,048,342	7,162

Notes:

(a) The Group approved and launched the Pre-IPO Option Scheme on 5 March 2010. Pursuant to the Pre-IPO Option Scheme, the five executive directors ("key management") and two senior management members were granted the Pre-IPO Options to subscribe for up to 50,000,000 shares of the Company. The Pre-IPO Options will vest in three instalments at each of the first three anniversaries of the Listing date and will only become exercisable from the respective vesting dates up to the fifth anniversary of the Listing date. The subscription price payable upon the exercise of any Pre-IPO Options is fixed at 90% of the final offer price per share for the Listing.

The fair value of the options granted determined using the black-scholes model was HK$35,803,333. The options have been divided into three batches according to different vesting periods.

The significant inputs to the model are summarised as below:

	First vesting	Second vesting	Third vesting
Stock price (HK$)	1.69	1.69	1.69
Exercise price (HK$)	1.52	1.52	1.52
Expected holding period	3.06	3.56	4.06
Risk-free rate	1.10%	1.29%	1.47%
Volatility	58.82%	57.00%	55.70%
Expected dividend yield	1.17%	1.17%	1.17%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices for a period same as the options expected term of similar listed companies.

As at 30 June 2014, all 50,000,000 options were exercisable but not exercised by anyone of the key management and senior management members. These options with an exercise price of HK$1.52 per share upon vesting will be expired on 24 March 2015.

(b) The Share Option Scheme was approved by the Group on 5 March 2010. The board of directors of the Company may, under the Share Option Scheme, grant options to any executive, non-executive or independent non-executive directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiaries or associated companies. The implementation of the Share Option Scheme is subject to a number of conditions being met, including the successful Listing of the Company.

No option has been granted under the Share Option Scheme as at 30 June 2014.

18 TRADE AND BILLS PAYABLES

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade payables	46,580	62,730
Bills payable	937,303	873,834
Total	983,883	936,564

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 as at the balance sheet date is as follows:

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
0 - 30 days	19,166	32,761
31 - 90 days	8,554	17,931
91 - 365 days	12,514	6,932
1 year - 2 years	2,878	2,106
2 years - 3 years	1,995	2,323
Over 3 years	1,473	677
	46,580	62,730

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

As at 30 June 2014, restricted bank deposits of RMB547,408,000 (31 December 2013: RMB421,265,000) (Note 15) had been pledged as collateral for the Group's bank acceptance bills of RMB937,303,000 (31 December 2013: RMB546,134,000).

As at 30 June 2014, no bills receivable had been pledged as collateral for the Group's bank acceptance bills. As at 31 December 2013, bills receivable with a carrying amount of RMB6,700,000 (Note 13) had been pledged as collateral for the Group's bank acceptance bills of RMB6,700,000.

19 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Advances from customers	300,807	194,063
Salary and welfare payables	18,497	22,132
Accrued expenses	5,427	10,549
Interest payables	22,417	10,031
Payables for purchase of equipment	2,331	264
Value added tax and other tax payables	13,457	13,058
Accrued volume discounts to distributors	12,329	3,552
Advance from a third party, interest free	50,000	50,000
Advance from a fund company (Note 9)	—	10,000
Deposits	3,948	3,947
Amount due to a director (Note 34(d))	463	463
Others	4,113	1,676
Total	433,789	319,735

The accruals and other payables of the Group are mainly denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

20 BORROWINGS

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Non-current		
Bank borrowings (a)	166,126	225,585
Medium-term notes (b)	384,671	382,573
	550,797	608,158
Current		
Bank borrowings (a)	561,074	541,774
	1,111,871	1,149,932

20 BORROWINGS *(continued)*

Movement in borrowings is analysed as below:

	Bank borrowings RMB'000	Medium-term notes RMB'000
Six months ended 30 June 2013		
Opening amount as at 1 January 2013	927,454	378,510
Proceeds from bank borrowings	807,411	—
Repayments of bank borrowings	(513,239)	—
Changes in amortised costs	—	1,982
Exchange differences	(8,465)	—
Closing amount as at 30 June 2013	1,213,161	380,492
Six months ended 30 June 2014		
Opening amount as at 1 January 2014	767,359	382,573
Proceeds from bank borrowings	178,200	—
Repayments of bank borrowings	(223,000)	—
Changes in amortised costs	—	2,098
Exchange differences	4,641	—
Closing amount as at 30 June 2014	727,200	384,671

(a) Bank borrowings

At 30 June 2014 and 31 December 2013, the Group's bank borrowings were repayable as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	561,074	541,774
Between 1 and 2 years	166,126	225,585
	727,200	767,359

As at 30 June 2014, land use rights and buildings (Note 7) with a total net book amount of RMB142,195,000 (31 December 2013: RMB100,188,000) had been pledged as collateral for the Group's bank borrowings of RMB38,000,000 (31 December 2013: RMB38,000,000).

As at 30 June 2014, restricted bank deposits of RMB544,000,000 (31 December 2013: RMB544,000,000) (Note 15) had been pledged as collateral for the Group's bank borrowings of US$83,000,000, equivalent to RMB510,683,000 (31 December 2013: US$83,000,000, equivalent to RMB506,043,000).

20 BORROWINGS *(continued)*

(a) Bank borrowings *(continued)*

As at 30 June 2014, merchandise held for resale of RMB90,000,000 (31 December 2013: Nil) (Note 12) had been pledged as collateral for the Group's bank borrowings of RMB90,000,000 (31 December 2013: Nil).

As at 30 June 2014, bank borrowings amounting to RMB88,517,000 (31 December 2013: RMB223,316,000) were unsecured.

The exposure of the Group's bank borrowings to interest rate change and the contractual repricing dates at the balance sheet date are as follows:

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
6 months or less	727,200	767,359

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

The carrying amounts of bank borrowings are as denominated in the following currencies:

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Non-current		
– US dollar	166,126	225,585
Current		
– RMB	128,200	173,000
– US dollar	432,874	368,774
	561,074	541,774
	727,200	767,359

As at 30 June 2014, bank borrowings with the carrying amounts of RMB599,000,000 (31 December 2013: RMB594,359,000) are of floating rates and bank borrowings with the carrying amounts of RMB128,200,000 (31 December 2013: RMB173,000,000) are of fixed rates.

20 BORROWINGS *(continued)*

(a) Bank borrowings *(continued)*

The weighted average effective interest rates of the Group's bank borrowings are as follows:

	As at	
	30 June 2014	31 December 2013
Non-current	2.40%	1.96%
Current	3.16%	3.05%

(b) Medium-term notes

On 20 August 2012, the Group's wholly owned PRC subsidiary Yangzhou Huiyin issued medium-term notes in the PRC in the aggregate principal amount of RMB390,000,000, at the interest rate of 6.3% per annum, and with a term of three years. The medium-term notes are listed and transferable on the inter-bank debenture market in the PRC.

As at 30 June 2014 and 31 December 2013, the Group's medium-term notes were repayable between 1 and 2 years.

As at 30 June 2014, land use rights, buildings and investment properties with a total net book amount of RMB35,964,000 (Note 7) together with land use rights of a land parcel owned by a joint venture (Note 9) had been pledged as collateral for the Group's medium-term notes.

As at 31 December 2013, land use rights, buildings, investment properties (Note 7) and property under development – leasehold land to be developed with a total net book amount of RMB281,058,000 (Note 12) had been pledged as collateral for the Group's medium-term notes.

74.36% of the proceeds from the issue of the medium-term notes will be used for enhancing sales network and 25.64% of the proceeds will be used for repaying part of the existing bank loans of Yangzhou Huiyin.

The effective interest rate of the medium-term notes was 7.56%.

21 DEFERRED GOVERNMENT GRANTS

Deferred government grants comprise government subsidy of RMB2,910,000 granted by the Management Committee of Jiangsu Yangzhou Hanjiang Economics Development Zone in respect of the Group's storage and logistic development project. Such deferred government grants are amortised on a straight-line basis over 50 years.

22 CONTINGENT CONSIDERATION LIABILITIES

	Contingent consideration liabilities arising from business combination RMB'000
At 1 January 2014 and 30 June 2014	53,560

On 20 September 2010, a subsidiary of the Group Yangzhou Huiyin entered into a co-operation agreement with Huainan Xingfushu Electrical Appliances Company Limited ("Xingfushu") and an independent third party Mr. Jin ("JV partner"), who was the 90% owner of Xingfushu, for the formation and operation of a new entity Huainan Four Seas, and acquisition of business by Huainan Four Seas from Xingfushu comprising inventories, sales network and leases of shops. Huainan Four Seas started business on 1 November 2010, meanwhile Xingfushu ceased its business.

The contingent consideration arrangement requires Yangzhou Huiyin to pay the JV partner a consideration, amounting to the net operating profit after taxation ("the Net Operating Profit") for the first year after its commencement of business (the "First Operating Year") (subject to a maximum amount of RMB14 million) times 6.5 minus RMB19.5 million (the "Consideration"), if the Net Operating Profit of Huainan Four Seas for the First Operating Year exceeds RMB5 million; meanwhile if the Net Operating Profit for the third year after the commencement of business of Huainan Four Seas exceeds RMB13 million and the aggregate Net Operating Profits for the first three years after the commencement of business of Huainan Four Seas exceeds RMB30 million, Yangzhou Huiyin shall pay the JV partner a bonus consideration of RMB12 million (the "Bonus Consideration"). Accordingly, the maximum amount of the contingent consideration payable to the JV partner is RMB83.5 million. The Consideration and the Bonus Consideration will be paid in cash or, if required by the JV partner, by way of issue and allotment of new ordinary shares of the Company (the "Shares"), to the JV partner. The number of new Shares to be issued will be based on the average closing price of the Shares for the three months immediately preceding the date of the issue and allotment of such Shares.

During the six months ended 30 June 2014, no fair value changes were recognised (Six months ended 30 June 2013: increase of RMB1,101,000 recognised as losses) (Note 25) in the consolidated income statement for the contingent consideration arrangement. As at 30 June 2014, the fair value of the contingent consideration liabilities of RMB53,560,000 (31 December 2013: RMB53,560,000) was estimated by applying the income approach.

The contingent consideration liabilities arising from Bonus Consideration is subject to the final adjustment, which depends on the outcome of commercial negotiation with the JV partner.

23 REVENUE

Turnover of the Group comprises revenues recognised as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Sales of goods		
– Retail	449,997	462,923
– Bulk distribution	1,081,291	848,405
including:		
Sales to franchisees	51,780	253,103
Sales to other retailers and distributors	1,029,511	595,302
	1,531,288	1,311,328
Rendering of services		
– Maintenance service	488	2,988
– Installation service	6,563	1,880
	7,051	4,868
Total revenue	1,538,339	1,316,196

24 OTHER INCOME

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Income from suppliers on promotion activities	4,165	4,738
Rental income	2,466	2,308
Government subsidies	62	139
	6,693	7,185

25 OTHER (LOSSES)/GAINS - NET

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Fair value losses on contingent consideration liabilities (Note 22)	–	(1,101)
Losses on disposal of property, plant and equipment, net	(2)	(13)
Insurance claim income for merchandises destroyed in a fire accident (i)	–	6,407
Accrued compensation to suppliers for losses caused by a fire accident	–	(808)
Losses from re-measurement and settlement of forward foreign exchange contracts	–	(1,362)
	(2)	3,123

Note:

(i) The insurance claim income was related to merchandises that had been destroyed by fire in an accident. In April 2013, the relevant insurance claim of RMB6,407,000 had been received by the Group and was recognised as insurance claim income in 2013.

26 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Cost of merchandise before deducting supplier rebates	1,700,790	1,434,875
Supplier rebates	(350,636)	(299,738)
Taxes and levies on main operations	2,302	2,071
Employee benefit expenses - including the directors' emoluments	35,687	35,014
Pre-IPO Option Scheme expenses	–	602
Service charges	3,166	2,681
Operating lease expenses in respect of buildings and warehouses	21,674	31,398
Promotion and advertising expenses	9,705	9,599
Amortisation of land use rights (Note 7)	279	239
Depreciation of property, plant and equipment (Note 7)	10,156	11,515
Depreciation of investment properties (Note 7)	85	85
Amortisation of intangible assets (Note 8)	686	704
Utilities and telephone expenses	3,936	3,974
Transportation expenses	7,455	6,995
Entertainment fees	3,720	2,979
Travelling expenses	1,911	1,632
Office expenses	1,010	1,025
Accrual/(reversal) of provision for obsolescence on inventories (Note 12)	1,524	(1,488)
Accrual/(reversal) of provision for impairment on receivables (Note 13)	307	(370)
(Reversal)/accrual of provision for supplier rebates receivable (Note 14)	(32,409)	174,171
Property tax and other taxes	1,562	2,534
Auditor's remuneration	1,475	1,525
Bank charges	5,326	4,506
Consulting expenses	285	830
Others	10,563	11,331
Total of cost of sales, selling and marketing expenses and administrative expenses	1,440,559	1,438,689

27 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Finance income		
– Interest income on bank deposits	16,498	17,862
– Interest income from borrowing to a joint venture	7,558	—
– Net foreign exchange gains on cash and cash equivalents and bank borrowings	—	6,918
	24,056	24,780
Finance costs		
– Interest expenses on discounting of bills receivable	(14,798)	(3,675)
– Interest expenses on bank borrowings	(12,162)	(20,562)
– Borrowing costs on medium-term notes	(14,383)	(14,266)
– Net foreign exchange losses on cash and cash equivalents and bank borrowings	(4,693)	—
	(46,036)	(38,503)
Finance costs - net	(21,980)	(13,723)

28 INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
PRC enterprise and withholding income taxes		
– Current income tax	24,733	21,720
– Deferred income tax (Note 10)	6,149	(43,193)
	30,882	(21,473)

(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 six months ended 30 June 2014 (30 June 2013: Nil).

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

(b) PRC enterprise income tax

In accordance with the Corporate Income Tax Law of the PRC (the "new CIT law") which became effective on 1 January 2008, PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the PRC enterprise income tax purpose.

(c) PRC withholding income tax

According to the new CIT law, starting from 1 January 2008, a 10% withholding tax is levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. Such withholding income tax is included in deferred income tax. The Group has not accrued for any PRC withholding income tax for the six months ended 30 June 2014 as its PRC subsidiaries did not have any retained profits available for distribution outside the PRC at end of the period after setting off accumulated losses of previous years (30 June 2013: Nil).

29 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2014	2013
Profit/(loss) attributable to equity holders of the Company (RMB'000)	41,321	(103,987)
Weighted average number of ordinary shares in issue (thousand)	1,048,342	1,048,342
Basic earnings/(loss) per share (RMB cents)	3.94	(9.92)

29 EARNINGS/(LOSS) PER SHARE *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the settlement in ordinary shares for contingent consideration arising from business combination assuming it was settled by issuance of ordinary shares.

	Six months ended 30 June	
	2014	2013
Profit/(loss) attributable to equity holders of the Company (RMB'000)	41,321	(103,987)
Weighted average number of ordinary shares in issue (thousand)	1,048,342	1,048,342
Adjustment for:		
– Settlement in ordinary shares for the contingent consideration arising from business combination (thousand)	226,345	157,653
Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousand)	1,274,687	1,205,995
Diluted earnings/(loss) per share (RMB cents)	3.24	(8.62)

30 DIVIDENDS

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

31 OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises, stores under non-cancellable operating lease agreements. The leases have various terms and renewal rights.

The Group's future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Not later than 1 year	39,265	43,360
Later than 1 year and not later than 5 years	86,116	98,322
Later than 5 years	28,829	31,609
	154,210	173,291

32 FUTURE OPERATING LEASE RENTALS RECEIVABLE

The Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Not later than 1 year	6,239	4,388
Later than 1 year and not later than 5 years	7,722	8,705
	13,961	13,093

The minimum lease receipts as set out above are mainly related to leasing of shop premises located at the Group's own stores and office building which are entered into primarily on a short-term or medium-term basis.

33 ACQUISITION AND DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

(a) Acquisition of additional equity interest in a subsidiary without change of control in 2013

In March 2013, the Group acquired the remaining 30% equity interest in Huiyin Real Estate which it already holds an equity interest of 70% from an individual for a consideration of RMB15,000,000. The carrying amount of the non-controlling interests in Huiyin Real Estate on the date of acquisition was RMB12,772,000. The Group recognised a decrease in non-controlling interests of RMB12,772,000 and a decrease in equity attributable to owners of the Company of RMB2,228,000 which represented the excess of consideration paid. The effect of change in the ownership interest of Huiyin Real Estate on the equity attributable to owners of the Company as at 30 June 2013 is summarised as follows:

	RMB'000
Carrying amount of non-controlling interests acquired	12,772
Consideration paid to non-controlling interests	(15,000)
Excess of consideration paid recognised within equity	(2,228)

(b) Deemed disposal of a subsidiary with loss of control in 2014

As described in Note 9, a co-operation agreement was entered into with a third party fund company Weiying regarding the operations of Huiyin Real Estate. The co-operation agreement had become effective on 4 March 2014 and since then, Huiyin Real Estate became a joint venture of the Group and its assets, liabilities and financial results ceased to be consolidated in the accounts of the Group. This constituted a deemed disposal of a subsidiary with loss of control. The excess of the consideration paid to non-controlling interests in 2013 amounting to RMB2,228,000 previously recognised within equity was also transferred to cost of investment in a joint venture at the date of loss of control.

34 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship with the Group
Mr. Cao Kuanping	Substantial shareholder of the Company/Director

(b) Transactions with related parties

The following transactions were undertaken by the Group with related parties:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
– Rental expenses to a related party		
Mr. Cao Kuanping	1,825	1,680
– Directors' emoluments		
Salaries and other welfares	3,326	3,921

In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business and at terms mutually negotiated between the Group and respective related parties.

Two property leasing contracts, one for office use and the other for retail purpose were entered into by the Group with Mr. Cao Kuanping in 2013. The annual rent payable to Mr. Cao by the Group under the two property leasing contracts amounts to RMB3,650,000 in aggregate for the 3 years from 2013 to 2015. The two property leasing contracts will expire on 19 January 2016.

(c) Key management compensation

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Salaries and other allowances	1,698	1,712
Social security costs	144	115
Pre-IPO Option Scheme expenses	—	530
Other benefits	1,404	1,429
	3,246	3,786

34 RELATED PARTY TRANSACTIONS *(continued)*

(d) Balances with related parties

The Group had the following material non-trade balances with related parties:

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Balances due to related parties:		
Accruals and other payables (Note 19)		
– Mr. Cao Kuanping	463	463
Salaries and welfares payable to directors		
– Mr. Cao Kuanping	–	1,861
– Mr. Mao Shanxin	–	334
– Mr. Mo Chihe	–	384
– Mr. Wang Zhijin	–	1,005
– Mr. Lu Chaolin	–	321
	–	3,905
	463	4,368

The balance due to Mr. Cao Kuanping as at the balance sheet date mainly represented miscellaneous payments that Mr. Cao Kuanping paid on behalf of the Group.

35 CONTINGENCIES

As at 30 June 2014 and 31 December 2013, the Group has been defending several legal actions brought by third parties in PRC, with the total claim amount of RMB 11,800,000. After seeking advices from PRC lawyers, the Group has considered these legal claims unfounded. No provision in relation to those claims has been recognised in these consolidated financial statements as in the directors' opinion, it is not probable that significant liability will arise.