Huiyin Smart Community Co., Ltd.

汇银智慧社区有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1280

2016
INTERIM REPORT

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Corporate Information

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

REGISTERED OFFICE

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Cayman Islands

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Jiangsu Province
PRC

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AUDITOR

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Jiangsu Province
PRC

China Merchant Bank (Yangzhou Branch)
Haiguan Building, West Wing
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STOCK CODE

1280

WEBSITE OF THE COMPANY

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

Management Discussion and Analysis

MARKET REVIEW

In the first half of 2016, the Chinese economy remained stable, and there are both many opportunities and challenges in 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 2016 dropped to 6.7%. Meanwhile, with the increase of income of urban and rural residents, consumption of commodities in Mainland China picked up. According to the statistics published by the National Bureau of Statistics of China, total retail sales of consumer goods in the country for the first half of 2016 was RMB15,613.8 billion, representing an increase of 10.3% over the same period of last year. Retail sales of consumer goods in urban areas was approximately RMB13,424.9 billion, representing an increase of 10.2% over the same period of last year, while those in rural areas was approximately RMB2,188.9 billion, representing an increase of 11.0% over the same period of last year. Notably, the online retail sales reached approximately RMB2,236.7 billion, representing an increase of 28.2% over the same period of last year.

In terms of residents' income growth, there is still a space for development in China. According to the data from the National Bureau of Statistics of China, for the first half of 2016, the disposable income per capita of residents was RMB11,886, representing an actual increase of 6.5% over the same period of last year. With the steady increase in income level of urban and rural residents, the consumption potential of residents is huge. Consumers will spend more on high-end products as well as services to improve their life quality.

As the State Council and governments at all levels vigorously promoted internet, online to offline ("O2O") business has become a new source of consumption growth. The development of rural e-commerce, cross-border e-commerce as well as community e-commerce will lead to transformation and upgrading of many good enterprises.

BUSINESS REVIEW

An integrated business model

Since our establishment, the Company and its subsidiaries (collectively the "Group") gradually became a leader in the third and fourth-tier home appliance markets in China. However with the development and expansion of the business scope, the Group has transformed to a household appliances, internet+, and community e-commerce operator, and was striving to be a leader of community e-commerce platform and imported goods direct selling industry in China. During the period under review, facing the rapid progress of consumption upgrading, the Group actively captured opportunities to realize transformation. The Group fully leveraged sales network and client resources it already has, promoted the construction of smart community e-commerce platform rapidly, and applied the thinking of Internet+ to constitute a perfect closed-loop. Stores have been opened in second-tier cities such as Nanjing City to expand our network into first and second-tier market. Taking advantage of its famous brand name "Huiyin" and "Huiyin Lehu • Global Community", the Group further enhanced the recognition of the "Huiyin" and "Huiyin Lehu" brand in the consumer market, expanded the range of products and services available, and understood the change in consumption temperament and shopping habit of people.

Supported by its existing retail business, the Group actively expanded all business segments through self-operated stores and its extensive network. During the period under review, to enhance the customer stickiness, the Group further standardized its internal operation and communication, and provided extensive after-sales and logistic services to customers with supply chain management and customer relationship management as the core. Such efforts on client experiences were well received and recognized by the consumers.

During the period under review, the Group continued to optimize its store management program. As at 30 June 2016, the Group had 41 self-operated stores, including 32 general stores, 3 brand retail stores, 1 shop-in-shop located in department store and 5 imported goods experience bases. For the six months ended 30 June 2016, total revenue of the Group was approximately RMB630.1 million, representing a decrease of 48.4% as compared with approximately RMB1,222.1 million for the same period in 2015. Loss of the Group for the period was approximately RMB256.1 million, while profit for the same period in 2015 was approximately RMB52.4 million. Gross profit margin decreased to 4.4%, representing an decrease of 9.4 percentage points. The loss recorded for the period was mainly attributable to the expenses incurred in connection with the grant of the share options to eligible participants based on the demand of human resources for the rapid expansion of smart community e-commerce business and the provisions made by the Group in respect of the amounts due from suppliers because of the worsen credit qualities of supplier.

E-commerce and smart community business

By the online to offline network of "Huiyin Lehu • Global Community (匯銀樂虎 • 全球家)", the Group's import, e-commerce and smart community business developed rapidly. During the period under review, revenue through the "Huiyin Lehu • Global Community" was approximately RMB318.5 million, representing an increase of 5.2% from RMB302.7 million for the same period in 2015. Sales revenue through import, e-commerce and smart community business includes retail sales ("business to customers" ("B2C")) and bulk distribution ("business to business" ("B2B")).

Import business

As the economy developed, middle class in Chinese cities is growing fast, and the consumer market is presenting a tendency of changing from satifying basic needs to meeting demand diverfication and consumption upgarding. With the increasing number of food safety problems and consumer concerns, demand for foreign goods increased dramatically, which has boosted the procurement agent industry and cross-border e-commerce. In response to this situation, the Group entered into the import business from the end of Year 2015.

During the period under review, the Group's import business developed rapidly. As at 30 June 2016, partnering with Ningbo Free Trade Zone and other carefully selected suppliers, the Group has established "Huiyin Lehu" branded imported goods experience base in Yangzhou City, Nanjing City and Nantong City. The imported goods experience base usually has a a business area of 3000-5000 square meters, and provides with thousands of imported commodities including maternal and infant products, food, cosmetics, personal care products, healthcare products, wine etc. The Group tries to purchase commodities directly from producers. With less intermediate agencies, the supply chain advantage enable us offer customers products with higher quality and lower price, and meanwhile sppliers can get payment more quickly. The Group has launched the membership system during the period under review. By investing in the membership, customers can enjoy the member preferential price as well as prominent services. Selling of the membership not only brings steady cash flow to the Group, but also increases the customer loyalty. Members can also order the imported goods through our online platform. Two new brands named "Huiyin Lehu • Global Community (匯銀樂虎 • 全球家)" and "Excellent Home (優家)" were created to support the import business. This business model was welcomed by local government, which enables the Group to expand at low cost.

E-commerce

The Group achieved the goal of a year-on-year growth in e-commerce sales through building an on-line platform and organizing e-commerce professional team. Mobile application, wechat mall, electronic shelves and PC terminal have gone live to increase online traffic in all channels. During the period under review, in order to enhance the customer experience, the Group optimized the user interface, syetem management, as well as ordering and payment process continuously. On the online platform, we also use content marketing. Online social media distribution and feedback sharing was provided to promote user interaction and activity. Along with offline promotion and quality logistic system, the Group attracts customers and improves stickiness successfully.

Backed by the Group's extensive sales network and well-covered logistics system, "Huiyin Lehu • Global Community" developed a shopping experience combining online and offline sales by allowing customers to purchase online and receive delivery at home or from its physical points. The online to offline business integration allowed centralized management of the Group's downstream business.

Smart community

Aiming to meet community residents' daily needs and preach safe and healthy shopping lifestyle, the Group developed the community life service platform as an important part of the Group's smart community strategy.

To really solve the "last mile" problem of O2O business, in-store multi-media terminals which are connected to the online platform enable customers to purchase products without leaving their homes, and the easy-to-use interface helps to strengthen user experience. Customers can choose delivery to home upon their time request, or to collect goods by using the two types of storage containers in community life service platforms, one of which is for refrigeration. Meanwhile the Group provides community life services such as housekeeping and household appliance repair and maintenance service to bring more convenience to residents. In addition, to raise brand awareness, the Group organizes public welfare activities regularly, which is also underscoring our social responsibility.

Traditional business of household appliances

Retail business

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

During the period under review, the Group actively optimized its product structure and flexibly adjusted product portfolio in response to market demand. Benefiting from rapid development of technology, household appliances have become more functionalized, intelligent and personalized, demand for smart household appliances have been growing fast. And 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.

In respect of client management, the Group continued to implement its business strategies focusing on establishing client relationship. Efforts included sorting out client information and establishing client database by means of alliance across different industries, group purchases and community promotion, analyzing consumer characteristic of clients, establishing and maintaining good interaction with customers. Meanwhile, the Group continued to expand the connection of e-commerce platform to its existing network, enhancing synergy and interaction of online and offline sales, and realized resource and information sharing through the online platform. Through the implementation of various optimization strategies such as store renovation, merchandise display intelligentization, service-oriented marketing, staff skill improvement, supply chain management and corporate advertisement, the Group improved its overall competitiveness and operation efficiency significantly during the period under review.

Bulk distribution business

The Group distributes as a supplier to our franchised stores as well as other independent third parties, mainly including household electronic product retailers and corporate customers. 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.

In response to the challenging market conditions, the Group launched flexible and diversified promotion activities such as group purchase of brand products and warehouse marketing to target customers during the period under review. However as the bulk distribution business occupy too much cash resource, the Group surrendered certain distribution rights from the end of year 2015 so as to support the new business of smart community e-commerce and smooth our transition process.

Client services: after-sales and logistics management

Offering of after-sales services is an important contributor to the continued expansion of the Group's businesses and also the competitive advantage of the Group. The Group offers a broad range of installation and maintenance services for the household appliances purchased from the Group or from other third party vendors and suppliers. During the period under review, the Group offered free repair & maintenance service for registered members of the Group, which is widely welcomed and helpful to expand our membership. 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 2016, the Group operated and managed a total of 23 authorized service centers, which provided thoughtful and diversified after-sales warranty services for consumers across broad geographical areas.

The Group was endeavouring 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. Meanwhile, in addition to cooperation with qualified third-party logistics suppliers, the Group also set up our own logistics team. GPS was installed to optimize the product delivery process as well as the online shopping experience.

The Group has integrated after-sales and logistics into one centralized platform to improve efficiency and effectiveness of client service management.

Integration of marketing strategies

In order to meet the market demand of consumers in different regions, the Group has integrated 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. Promotion activities including “Brand Special Group Purchase (品牌專場團購)”, “Horizontal Alliance Special Promotion (異業聯盟專場促銷)” and “Maternal and Infant Day (母嬰節)” were launched, which offered more concessions to consumers and contributed to the Group’s sales revenue.

In respect of customer base expansion, the Group continued to develop ecosystem and achieved electronic customer information management. This program has enabled the Group to formulate more accurate marketing approaches for loyal customers and improve its marketing and brand promotion strategies. Community services such as household appliances free maintenance, free housekeeping and trade-in were offered to attract community consumer.

In respect of brand marketing, by way of combing traditional marketing strategies and innovative media, the Group improved adverting effect and increased the awareness of “Huiyin” and “Huiyin Lehu • Global Community” 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. Public welfare events such as community recreational and sports activities, health lectures and campus activities were held to improve the perceptions of consumers toward the brand.

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 in turn optimize its operations and management. Informatization platform has been implemented to integrate the management of inventory, logistic and client service system. During the period under review, to cope with the new import business, the Group also introduced a new management system. Furthermore, mobile communication platform has been used to optimize customer experience and improve the efficiency of client services.

Information-based human resources management

As at 30 June 2016, the Group had 1,010 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 organized over 40 training sessions in various aspects, with a total of approximately 1,600 participating employees.

Outlook

In the second half of 2016, challenges will remain for the global economy, retail business will continue to face significant operational pressure and the domestic consumer market will face the change in growth pattern and structural integration. Demand on high-end products and imported commodities increased fast. With the technology development, E-commerce grew rapidly. Chinese government has released policies to vigorously promote O2O business. The Group is constantly taking advantage of its own advantages and taking the opportunities arising from market environment and industry consolidation, leveraging on its unique business model and its sales network and client resources, and is strategically poised to realize future growth and to become a leading community e-commerce and imported goods direct selling operator in China. In addition, retail of household appliance is still an important part of our business. 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 domestic household appliances market.

In the second half of 2016, the Group will take innovative measures in three aspects — store management, brand building and human resources. The Group will 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. Another imported goods experience base is going to be established in Shangthai city, upon which, we will enter into the first-tier city. This is of great significance to the Group's transformation. Furthermore, the Group will copy the successful model in other cities in Yangtze River Delta. Meanwhile, the Group will actively implement its brand marketing strategy, enhance its brand image (including further optimization of the Group's integrated online platform covering various aspects such as procurement, sales and customer services) 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 and e-commerce talents and provide customers with professional services.

The transformation of our Group to be a leader of community e-commerce platform and imported goods direct selling industry in China has found its most suitable business model, and the road is promising. Looking ahead to the coming year, the Group will deploy its network according to the expansion plan and to develop a strategic alliance with its suppliers, to pursue the Group's leading position in the consumer markets. The Group will improve the interaction with community resources and provide creative service to customers, to further reinforce the awareness of the "Huiyin" and "Huiyin Lehu • Global Community" brand in target market traditional business and e-commerce and smart community business. The integration and interplay between online and offline business will bring about more convenience to residents and promote our smart community life service strategy. Through these strategies, the 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 Group's strategy transformation, the impact of macro-economic slowdown and declining demand in the household appliances consumer market, the Group's revenue was approximately RMB630.1 million, representing an decrease of 48.4% from approximately RMB1,222.1 million for the same period of 2015.

Turnover of the Group comprises revenues by operation as follows:

	Six months ended 30 June			
	2016 RMB'000		2015 RMB'000	
Sales from traditional business				
– Retail	150,770	23.9%	328,416	26.9%
– Bulk distribution	155,830	24.7%	577,294	47.2%
Sales from e-commerce and smart community business	318,430	50.5%	302,742	24.8%
Rendering of services	5,035	0.8%	13,602	1.1%
Total revenue	630,065	100.0%	1,222,054	100.0%

In the first half of 2016, the decrease in sales from traditional channels was mainly attributable to the impact of the macro-economic slowdown and the strategic change of the Group to focus on smart community e-commerce business.

Cost of sales

Cost of sales decreased by approximately 42.8% from RMB1,053.5 million for the six months ended 30 June 2015 to RMB602.3 million for the six months ended 30 June 2016, primarily due to an decrease in sales volume.

Gross profit

Our gross profit decreased by approximately 83.5% from RMB168.5 million for the six months ended 30 June 2015 to RMB27.8 million for the six months ended 30 June 2016.

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Traditional business	0.7%	12.6%
E-commerce and smart community business	7.0%	14.7%
Overall	4.4%	13.8%

During the period under review, the gross profit margin of the traditional business decreased, which was primarily due to the decrease of rebate amount from suppliers arising from the decrease of purchase volume. The decrease in gross profit margin of e-commerce and smart community business was mainly due to our control on product selling price to obtain more competitive advantage for the new smart community business.

Other income

During the period under review, the Group recorded other income of approximately RMB4.4 million, representing a decrease from approximately RMB9.7 million for the same period in 2015.

Other losses

During the period under review, the Group recorded other losses of approximately RMB378,000, representing an increase from approximately RMB6,100 for the same period in 2015.

Selling and marketing expenses

During the period under review, the Group's total selling and marketing expenses amounted to approximately RMB71.2 million, representing a decrease from approximately RMB84.2 million for the same period in 2015, which is mainly due to the Group's strategic change.

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

	Six months ended 30 June	
	2016	2015
Employee benefit expenses	3.02%	1.71%
Service charges	0.11%	0.24%
Operating lease expenses in respect of buildings and warehouses	2.98%	1.76%
Promotion and advertising expenses	1.77%	1.09%
Depreciation of property, plant and equipment	1.37%	0.67%
Utilities and telephone expenses	0.50%	0.26%
Transportation expenses	0.62%	0.45%
Travelling expenses	0.13%	0.07%
Others	0.79%	0.64%
Total selling and marketing expenses	11.30%	6.89%

Although selling and marketing expenses decreased, selling and marketing expenses as a percentage of total revenue increased significantly, which was mainly due to the decrease of revenue.

Administrative expenses

During the period under review, the Group's total administrative expenses amounted to approximately RMB166.6 million, while expenses (credit) approximately RMB13.7 million for the same period of 2015, which was mainly due to the increase of provision for impairment on receivables and share option expenses.

The following table sets out a summary for administrative expenses:

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Employee benefit expenses	18,211	14,163
Share option expenses	44,832	15,844
Operating lease expenses in respect of buildings	1,767	1,634
Utilities and telephone expenses	738	975
Travelling expenses	2,236	2,371
Auditors' remuneration	1,500	1,475
Consulting expenses	94	117
Amortisation and depreciation	4,492	4,692
Accrual/(Reversal) of provision for impairment on receivables	87,112	(65,644)
Others	5,614	10,658
Total administrative expenses	166,596	(13,715)

The provision for impairment on receivables was mainly due to making of certain provision for receivables from suppliers after taking into account of the financial position of upstream companies in the industry and collectability of the receivables. During the period under review, the credit quality of main suppliers was worse, which led to a worsen collectability and a higher provision for impairment accordingly.

The increase of share option expenses was due to the share options granted to eligible participants based on the demand of human resources for the rapid expansion of smart community and e-commerce business, which was launched on 14 May 2015 and 22 December 2015.

Operating (loss)/profit

Loss from operations was approximately RMB205.9 million for the six months ended 30 June 2016, while there was operating profit amounting to approximately RMB107.7 million for the same period in 2015.

Finance costs — net

During the period under review, the Group's net finance costs was approximately RMB20.7 million, representing an increase from approximately RMB16.7 million for the six months ended 30 June 2015, which was mainly due to the increase in fair value loss on convertible bonds.

Share of loss of a joint venture

During the period under review, the share of loss of a joint venture amounting to RMB1.1 million (2015: RMB5.9 million) was share of loss of Yangzhou Huiyin Real Estate Co., Ltd. ("Huiyin Real Estate"), which 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. On 27 January 2016, the co-operation agreement was terminated and the assets, liabilities and financial results of Huiyin Real Estate had been consolidated in the accounts of the Group since then. Before the termination of the co-operation agreement, the Group recognized the share of profit and loss of Huiyin Real Estate by applying equity method, and the loss of Huiyin Real Estate was mainly due to the interest expense from borrowing owed to the Group, which became intra-group charges thereon.

Share of (loss)/profit of an associate

During the first half of 2016, the share of loss of an associate amounting to RMB183,000 (2015: profit of RMB102,000) was share of loss of Taixing Shengshi Huazhang Electronic Sales Co., Ltd. ("Huazhang"), which is an associate set up by Yangzhou Shengshi Xinxing Electronic Sales Co., Ltd. ("Yangzhou Shengshi"), an indirectly owned subsidiary of the Company, together with 2 third party companies on 29 September 2014. The Group recognizes the share of profit and loss of Huazhang by applying equity method.

(Loss)/profit before income tax

During the period under review, the loss before income tax was approximately RMB228.0 million, while there was profit of approximately RMB85.2 million for the same period of 2015.

Income tax

During the period under review, the Group's income tax expense was approximately RMB28.1 million, representing 12.3% of the loss before income tax, while the income tax expense of approximately RMB32.8 million, representing 38.5% of the profit before income tax for the same period of 2015.

(Loss)/profit attributable to equity holders of the Company

The Group's loss attributable to equity holders for the period under review was approximately RMB244.1 million, while there was profit attributable to equity holders of approximately RMB55.4 million for the same period in 2015.

Investment in and loan to a joint venture

As at 31 December 2015, the Group recognized 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 RMB44.3 million. Loan to Huiyin Real Estate as at 31 December 2015 includes principal amount of RMB197.3 million and interest receivable of RMB58.9 million. As announced by the Company on 27 January 2014, the Group entered into a co-operation agreement with Weiying effective on 4 March 2014 in respect of the development of the land parcel acquired in 2011. Under the co-operation agreement, the Group and Weiying jointly controlled the legal and financial operations as well as other key relevant activities of Huiyin Real Estate and Huiyin Real Estate became a joint venture. On 27 January 2016, the co-operation agreement was terminated. All key relevant activities would no longer require unanimous consent of both Yangzhou Huiyin and Weiying since then. The assets, liabilities and financial results of Huiyin Real Estate had been consolidated in the accounts of the Group again as before the entering into the co-operation agreement. And as at 30 June 2016, the Group didn't recognize its interest in Huiyin Real Estate as an investment in joint venture.

Cash and cash equivalents

As at 30 June 2016, the Group's cash and cash equivalents were approximately RMB311.8 million, representing an increase of 336.1% from approximately RMB71.5 million at the end of 2015.

Inventories

As at 30 June 2016, the Group's inventories amounted to approximately RMB572.3 million, representing an increase from RMB293.9 million at the end of 2015, which was mainly due to the inclusion of a property under development amounted to 374.6 million owned by Huiyin Real Estate. The assets, liabilities and financial results of Huiyin Real Estate had been consolidated in the accounts of the Group again since 27 January 2016.

Prepayments, deposits and other receivables

As at 30 June 2016, prepayments, deposits and other receivables of the Group amounted to approximately RMB908.7 million, representing a decrease from approximately RM934.4 million at the end of 2015.

Trade and bills receivables

As at 30 June 2016, trade and bills receivables of the Group amounted to approximately RMB72.1 million, representing a decrease of 13.8% from approximately RMB83.6 million at the end of 2015.

Trade and bills payables

As at 30 June 2016, trade and bills payables of the Group amounted to approximately RMB841.7 million, representing a decrease of 5.6% from approximately RMB891.4 million at the end of 2015, which was mainly due to the decrease of bills payable.

Gearing ratio and the basis of calculation

As at 30 June 2016, gearing ratio of the Group was 40.9%, representing a slight decrease from 41.0% as at 31 December 2015. 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 RMB4.7 million, representing a decrease from approximately RMB18.3 million for the same period in 2015.

Cash flows

During the period under review, net cash outflow from operating activities of the Group amounted to approximately RMB189.7 million as compared to approximately RMB156.6 million for the same period in 2015. The higher net cash outflow was mainly due to the decrease of advances from customers.

Net cash inflow from investing activities amounted to approximately RMB2.3 million as compared to approximately RMB5.6 million for the same period in 2015. The lower net cash inflow was mainly due to decrease of interest income received in 2016.

Net cash inflow from financing activities amounted to approximately RMB427.9 million, as compared to approximately RMB249.4 million for the same period in 2015, which was mainly due to the proceeds from advance of subscription of new shares during the first half of 2016. On 30 June 2016, the Group entered into a subscription agreement upon which the Group agreed to allot and issue an aggregate of 262,000,000 new shares to a third party at the subscription price of HK$0.80 per subscription share. On 12 July 2016, the conditions of the subscription agreement were fulfilled and the subscription was completed.

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, and proceeds from issuance of ordinary shares. As at 30 June 2016, the interest-bearing bank borrowings of the Group amounted to RMB433.1 million, representing a decrease from RMB539.1 million as at 31 December 2015.

Pledging of assets

As at 30 June 2016, the Group's pledged bank deposits, merchandise held for resale and property under development for resale amounted to RMB491.6 million, RMB35 million and RMB333.2 million respectively. Certain land use rights, buildings and investment properties with a total net book amount of RMB167.9 million had been pledged.

Contingent liabilities

As at 30 June 2016, the Group had no contingent liabilities which have not been properly accrued for except for certain unfounded legal claims and guarantees provided to the customers which the Group does not expect that it will incur any loss.

Foreign currencies and treasury policy

All the Group's income and the majority of its expenses were denominated in Renminbi.

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 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 2016, 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 2016) (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	4.4
General working capital	34.5	34.5
	403.5	293.5

The remaining net proceeds were held by us in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or 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 2016, the Group had 1,010 employees, up 17.4% from 860 at the end of 2015.

INTERIM DIVIDEND

The Board of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2016.

SHARE OPTION SCHEME

On 5 March 2010, we have adopted a share option scheme (the "Share 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 include, without limitation, directors and employees of the Company, or any of its subsidiaries or associated companies.

The following directors, an associate of the Directors and employees were granted the share options to subscribe for up to 245,680,000 Shares pursuant to the Share Option Scheme. Among the 245,680,000 share options, 35,500,000 share options were granted to directors of the Company and an associate of a Director.

	Number of Share Options				
Name	**As at 1 January 2016**	**Granted during the period**	**Exercised during the period**	**As at 30 June 2016**	**Approximate percentage of interest in the Company**
Directors and their associate					
Cao Kuanping					
Chairman, Chief Executive Officer and Executive Director	1,000,000	—	—	1,000,000	0.07%
Mo Chihe					
Executive Director	10,000,000	—	—	10,000,000	0.69%
Mao Shanxin					
Executive Director	1,000,000	—	—	1,000,000	0.07%
Wang Zhijin					
Executive Director and Chief Financial Officer	8,000,000	—	—	8,000,000	0.55%
Lu Chaolin					
Executive Director and Vice General Manager	5,000,000	—	—	5,000,000	0.34%
Zhou Shuiwen					
Independent Non-Executive Director	500,000	—	—	500,000	0.03%
Tam Chun Chung					
Independent Non-Executive Director	500,000	—	—	500,000	0.03%
Lo Kwong Shun Wilson					
Independent Non-Executive Director	500,000	—	—	500,000	0.03%
Mao Shanzhen					
(the spouse of Cao Kuanping and the sister of Mao Shanxin)	1,000,000	—	—	1,000,000	0.07%
Others					
Employees	210,180,000	—	—	210,180,000	14.43%
	237,680,000	—	—	237,680,000	

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

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

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

The subscription price payable upon the exercise of the 100,000,000 Share Options is fixed at HK$1.69. Details of the valuation of the Share Options are set out in note 17(c) to the unaudited condensed consolidated interim financial statements of this interim report.

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

The subscription price payable upon the exercise of the 145,680,000 Share Options is fixed at HK$0.95. Details of the valuation of the Share Options are set out in note 17(d) to the unaudited condensed consolidated interim financial statements of this interim report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, 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 (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange, 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	339,103,625 Shares (L)	23.28%
		Beneficial owner	1,000,000 underlying Shares (L)	0.07%
		Spouse interest	1,000,000 underlying Shares (L)	0.07%
Lu Chaolin	The Company	Beneficial owner	5,000,000 underlying Shares (L)	0.34%
Mo Chihe	The Company	Beneficial owner	10,000,000 underlying Shares (L)	0.69%
Mao Shanxin	The Company	Beneficial owner	1,000,000 underlying Shares (L)	0.07%
Wang Zhijin	The Company	Beneficial owner	8,000,000 underlying Shares (L)	0.55%
Tam Chun Chung	The Company	Beneficial owner	500,000 underlying Shares (L)	0.03%
Zhou Shuiwen	The Company	Beneficial owner	500,000 underlying Shares (L)	0.03%
Lo Kwong Shun Wilson	The Company	Beneficial owner	500,000 underlying Shares (L)	0.03%

(L) denotes long position.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 30 June 2016, 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	339,103,625 (L)	23.28%
Fuxin Investment Holding Co., Ltd.	The Company	Beneficial owner	131,197,727 (L)	9.00%
Mao Shanzhen	The Company	Beneficial owner	1,000,000 Underlying Shares (L) (Note 1)	0.07%
		Spouse Interest	340,103,625 (L) (Note 1)	23.34%
寶世(天津)電子商務有限公司 Baoshi (Tianjin) E-commerce Company Limited* ("Baoshi (Tianjin)")	The Company	Beneficial owner	262,000,000 (L) (Note 2)	17.98%
天津渤海商品交易所股份有限公司 Tianjin Bohai Commodity Exchange Corporation* ("Tianjin Bohai")	The Company	Interest in controlled corporation	262,000,000 (L) (Note 3)	17.98%

(L) denotes long position.

Note:

(1) These underlying shares represent the 1,000,000 share options held by Ms. Mao Shanzhen granted by the Company under the Share Option Scheme. The 340,103,625 shares represent the interests held by Mr. Cao Kuanping, spouse of Ms. Mao Shanzhen, whose interests are disclosed in the above section headed "Directors' Interests in Shares, Underlying Shares and Debentures".

(2) On 30 June 2016, the Company entered into a subscription agreement with Baoshi (Tianjin) pursuant to which Baoshi (Tianjin) has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 262,000,000 new shares under the general mandate of the Company. This subscription was completed on 12 July 2016 and an aggregate of 262,000,000 subscription shares were then issued and allotted to Baoshi (Tianjin). Details of the subscription can be referred to in the announcements published on the websites of the Stock Exchange and the Company on 30 June 2016 and 12 July 2016.

(3) As at 30 June 2016, Baoshi (Tianjin) was 99% owned by Tianjin Bohai. Therefore, Tianjin Bohai is deemed to be interested in the Shares held by Baoshi (Tianjin) for the purpose of Part XV of the SFO.

* *For identification purpose only*

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from 1 January 2016 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 33(b) to the unaudited condensed consolidated interim financial statements in this interim report, during the six months ended 30 June 2016, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB1,867,000. As disclosed in the announcement dated 20 April 2016 published by the Company, on 20 April 2016 , Mr. Cao Kuanping as landlord entered into a tenancy agreement with Jiangsu Huiyin Lehu Commercial 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 are more than 0.1% but less than 5% and the aggregate annual rents payable are more than HK$3,000,000, under Rule 14A.76 of the Listing Rules, the Tenancy Agreements are subject to the announcement requirements set out in Rules 14A.35 and 14A.68, the annual review requirements set out in Rules 14A.49, 14A.55 to 14A.59, 14A.71 and 14A.72 and the requirements set out in Rules 14A.34 and 14A.50 to 14A.54 of the Listing Rules, and exempt from the circular (including independent financial advice) 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30 June 2016 except with the following deviation.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive 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.

Under code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting. Mr. Cao Kuanping, the chairman of the board of the Company was unable to attend the annual general meeting of the Company held on 30 May 2016 due to his commitment for the Company's business and Mr. Wang Zhijin, executive Director, has acted as the chairman of the annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 2016 to 30 June 2016.

The Company has also established the written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

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 principal duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 June 2016. 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 2016.

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 2016 to 30 June 2016, 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 2016.

EVENT AFTER REPORTING PERIOD

As stated in the announcement of the Company dated 12 July 2016, an aggregate of 262,000,000 subscription shares have been successfully issued and allotted at the subscription price of HK$0.80 per subscription share. The net proceeds from the subscription amounted to approximately HKD209,600,000 and will be used as general working capital of the Group and for development of the existing business of the Group.

As stated in the announcement of the Company dated 14 July 2016, the Company has agreed to early redeem all of the outstanding convertible bond at the aggregate amount of approximately HKD83,000,000 which includes the outstanding principal of HKD80,000,000 and the interest of approximately HKD3,000,000 accrued on the convertible bonds to be redeemed. After the early redemption, no convertible bond remains outstanding.

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 22 August 2016

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	46,410	46,965
Property, plant and equipment	7	231,287	238,734
Investment properties	7	5,490	5,575
Intangible assets	8	4,474	3,672
Investment in and loan to a joint venture	9	—	261,944
Investment in an associate	10	957	1,181
Deferred income tax assets	11	48,276	169,788
		336,894	727,859
Current assets			
Inventories	12	572,264	293,878
Trade and bills receivables	13	72,088	83,616
Prepayments, deposits and other receivables	14	908,734	934,449
Restricted bank deposits	15	491,575	603,040
Cash and cash equivalents	16	311,796	71,500
		2,356,457	1,986,483
Total assets		2,693,351	2,714,342
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	9,708	9,708
Reserves		603,013	754,758
		612,721	764,466
Non-controlling interests in equity		13,357	12,833
Total equity		626,078	777,299

The notes on pages 29 to 72 are an integral part of these condensed consolidated interim financial statements.

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	6,940	6,722
Deferred income tax liabilities	11	211	211
Deferred government grants	21	2,731	2,760
		9,882	9,693
Current liabilities			
Trade and bills payables	18	841,724	891,379
Accruals and other payables	19	703,069	301,175
Borrowings	20	426,166	532,340
Current income tax liabilities		32,872	148,896
Other current liabilities	22	53,560	53,560
		2,057,391	1,927,350
Total liabilities		2,067,273	1,937,043
Total equity and liabilities		2,693,351	2,714,342

The notes on pages 29 to 72 are an integral part of these condensed consolidated interim financial statements.

Interim Condensed Consolidated Income Statement

	Note	Unaudited Six months ended 30 June 2016 RMB'000	2015 RMB'000
Revenue	23	630,065	1,222,054
Cost of sales	26	(602,285)	(1,053,531)
Gross profit		27,780	168,523
Other income	24	4,449	9,656
Other losses — net	25	(378)	(6)
Selling and marketing expenses	26	(71,175)	(84,183)
Administrative expenses	26	(166,596)	13,715
Operating (loss)/profit		(205,920)	107,705
Finance income	27	7,301	19,370
Finance costs	27	(28,030)	(36,090)
Finance costs — net	27	(20,729)	(16,720)
Share of loss of a joint venture	9	(1,148)	(5,913)
Share of (loss)/profit of an associate	10	(183)	102
(Loss)/profit before income tax		(227,980)	85,174
Income tax expense	28	(28,073)	(32,787)
(Loss)/profit for the period		(256,053)	52,387
Attributable to:			
– Equity holders of the Company		(244,071)	55,361
– Non-controlling interests		(11,982)	(2,974)
		(256,053)	52,387
(Loss)/earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
— Basic	29	(16.75)	4.72
— Diluted	29	(16.75)	4.55
Dividends	30	—	—

The notes on pages 29 to 72 are an integral part of these condensed consolidated interim financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
(Loss)/profit for the period	(256,053)	52,387
Other comprehensive income or loss	—	—
Total comprehensive (loss)/profit for the period	(256,053)	52,387
Attributable to:		
– Equity holders of the Company	(244,071)	55,361
– Non-controlling interests	(11,982)	(2,974)
	(256,053)	52,387

The notes on pages 29 to 72 are an integral part of these condensed consolidated interim financial statements.

Interim 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 2015		7,819	884,938	28,007	(57,432)	(61,655)	801,677	45,145	846,822
Profit/Total comprehensive profit for the six months ended 30 June 2015		–	–	–	–	55,361	55,361	(2,974)	52,387
Issue of ordinary shares	17	628	139,837	–	–	–	140,465	–	140,465
Share Option Schemes – value of employee services	17	–	–	–	15,844	–	15,844	–	15,844
Total transactions with owners, recognised directly in equity		628	139,837	–	15,844	–	156,309	–	156,309
Balance at 30 June 2015		8,447	1,024,775	28,007	(41,588)	(6,294)	1,013,347	42,171	1,055,518
Balance at 1 January 2016		9,708	1,201,278	28,007	(14,274)	(460,253)	764,466	12,833	777,299
Loss/Total comprehensive loss for the six months ended 30 June 2016		–	–	–	–	(244,071)	(244,071)	(11,982)	(256,053)
Capital contribution from a non-controlling interest		–	–	–	52,440	(4,946)	47,494	12,506	60,000
Share Option Schemes – value of employee services	17	–	–	–	44,832	–	44,832	–	44,832
Total transactions with owners, recognised directly in equity		–	–	–	97,272	(4,946)	92,326	12,506	104,832
Balance at 30 June 2016		9,708	1,201,278	28,007	82,998	(709,270)	612,721	13,357	626,078

The notes on pages 29 to 72 are an integral part of these condensed consolidated interim financial statements.

Interim Condensed Consolidated Cash Flow Statement

	Note	Unaudited Six months ended 30 June 2016 RMB'000	 2015 RMB'000
Cash flows from operating activities:			
Cash used in operations		(159,411)	(129,283)
Interest paid		(25,024)	(23,074)
Income tax paid		(5,268)	(4,266)
Net cash used in operating activities		(189,703)	(156,623)
Cash flows from investing activities:			
Cash acquired from acquisition of a subsidiary	9	16,789	–
Purchase of property, plant and equipment	7	(4,074)	(17,526)
Purchase of intangible assets	8	(600)	(811)
Proceeds from disposal of property, plant and equipment	7	396	44
Additional loan to a joint venture	9	(17,200)	(39)
Interest received		6,960	23,906
Net cash generated from investing activities		2,271	5,574
Cash flows from financing activities:			
Proceeds from bank borrowings	20	112,808	113,000
Repayments of bank borrowings	20	(223,542)	(409,131)
Proceeds from advance from third parties	19	216,600	68,200
Repayments of advance from third parties	19	(68,200)	(5,200)
Net Proceeds from issuance of bonds	20	–	6,244
Proceeds from issuance of ordinary shares	17	–	140,465
Proceeds from advance from a shareholder for subscription of ordinary shares of the Company		–	48,866
Proceeds from advance from third parties for subscription of ordinary shares of the Company	19	270,000	–
Net decrease in restricted cash relating to financing activities	15	60,210	287,000
Capital contribution from a non-controlling interest		60,000	–
Net cash generated from financing activities		427,876	249,444
Increase in cash and cash equivalents		240,444	98,395
Cash and cash equivalents at beginning of the period	16	71,500	25,314
Exchange differences on cash and cash equivalents		(148)	280
Cash and cash equivalents at end of the period	16	311,796	123,989

The notes on pages 29 to 72 are an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

1 GENERAL INFORMATION

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

The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the "Group") are engaged in the retail and bulk distribution sales of household appliances, e-commerce and smart community business, real estate business and other services in the People's Republic of China (the "PRC").

The Group's businesses were primarily carried out by Yangzhou Huiyin Technology Group Co., Ltd. ("Yangzhou Huiyin", formerly known as "Yangzhou Huiyin Household Appliance (Group) 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 2016 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 2015, 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 22 August 2016.

These condensed consolidated interim financial statements have not been audited.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those used for and described in the annual consolidated financial statements of the Company for the year ended 31 December 2015.

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

(b) New standard, amendments and improvements of HKFRSs adopted by the Group in the first half of 2016:

- HKFRS 14 "Regulatory Deferral Accounts"
- Amendment to HKAS 27 "Equity Method in Separate Financial Statements"
- Amendment to HKFRS 11 "Accounting for Acquisitions of Interests in Joint operations"
- Amendments to HKAS 16 and HKAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Annual improvements 2014, affecting the following 4 standards: HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", HKFRS 7 "Financial Instruments: Disclosures", HKAS 19 "Employee Benefits" and HKAS 34 "Interim Financial Reporting"
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment Entities: Applying the Consolidation Exception"
- Amendments to HKAS 1 "Disclosure Initiative"

The adoption of the above new standard, amendments and improvements starting from 1 January 2016 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 2016.

The Group has not early adopted any new accounting and financial reporting standards, amendments and improvements to existing standards which have been issued but are not yet effective for the financial year ending on 31 December 2016.

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 2015.

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 2015.

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	More than 2 years RMB'000
As at 30 June 2016					
Borrowings (Note 20)	125,937	224,493	75,736	–	8,547
Interest payments on borrowings (note)	6,877	2,874	1,225	513	2,564
Trade and bills payables (Note 18)	587,707	254,017	–	–	–
Accruals and other payables, excluding the advances from customers, advances from a third party for subscription of ordinary shares of the Company, value added tax and other tax payables and salary and welfare payables (Note 19)	423,863	–	–	–	–
	1,144,384	481,384	76,961	513	11,111
As at 31 December 2015					
Borrowings (Note 20)	195,910	10,000	326,430	–	6,722
Interest payments on borrowings (note)	4,558	3,447	8,330	503	3,016
Trade and bills payables (Note 18)	587,155	304,224	–	–	–
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables, salary and welfare payables (Note 19)	73,399	58,600	–	–	–
	861,022	376,271	334,760	503	9,738

Note:

The interest payments on borrowings are calculated based on borrowings held as at 30 June 2016 and 31 December 2015 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 issued convertible bonds (Note 20) and contingent consideration arising from the business combination (Note 22) were measured at fair value by level 3.

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

The following table presents the changes in level 3 instruments for six months ended 30 June 2016:

	Convertible bonds at fair value through profit or loss RMB' 000	Contingent consideration liabilities arising from business combination	Total RMB' 000
Opening balance	67,611	53,560	121,171
Losses recognised in profit or loss	3,327	—	3,327
Closing balance	70,938	53,560	124,498
Change in unrealised losses for the year included in profit or loss for liabilities held at the end of the year	3,327	–	3,327

The following table presents the changes in level 3 instruments for six months ended 30 June 2015:

	Contingent consideration liabilities arising from business combination RMB' 000
Opening balance and closing balance	53,560

See Note 20 for disclosures of the measurement of the convertible bonds and Note 22 for disclosures of the measurement of the contingent consideration.

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

5.5 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 for financial assets and liabilities pertains to the discount rate for contingent consideration. It is estimated based on the market conditions. The main level 3 inputs used by the Group for the Group's convertible bonds are set as note 20.

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

As at 30 June 2016 and 31 December 2015, 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 all 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:

- Traditional business, including the results from sales of household appliances through retail and wholesale channel
- E-commerce and smart community business, included the results from sales of household appliances, foods and other merchandise through online and smart community channels.

Other operations of the Group mainly comprise provision of maintenance and installation services to customers, agency service for sales of lotteries until September 2015, and real estate business starting from January 2016 with the acquisition of a subsidiary.

6 SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2016 are as follows:

	Traditional business RMB'000	E-commerce and smart community business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	555,305	318,430	5,035	—	878,770
Inter-segment revenue	(248,705)	—	—	—	(248,705)
Revenue from external customers	306,600	318,430	5,035	—	630,065
Operating profit/(loss)	(165,090)	2,298	1,888	(45,016)	(205,920)
Finance costs - net					(20,729)
Share of loss of a joint venture					(1,148)
Share of loss of an associate					(183)
Loss before income tax					(227,980)
Income tax expense					(28,073)
Loss for the period					(256,053)
Other segment items are as follows:					
Capital expenditure	800	3,478	411	—	4,689
Depreciation charge	5,476	5,685	90	—	11,251
Amortisation charge	610	633	10	—	1,253

6 SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2015 are as follows:

	Traditional business RMB'000	E-commerce and smart community business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	1,030,694	302,742	13,602	—	1,347,038
Inter-segment revenue	(124,984)	—	—	—	(124,984)
Revenue from external customers	905,710	302,742	13,602	—	1,222,054
Operating profit/(loss)	92,485	36,019	(1,227)	(19,572)	107,705
Finance costs - net					(16,720)
Share of loss of a joint venture					(5,913)
Share of profit of an associate					102
Profit before income tax					85,174
Income tax expense					(32,787)
Profit for the period					52,387
Other segment items are as follows:					
Capital expenditure	13,710	4,583	—	39	18,332
Depreciation charge	8,539	2,854	128	—	11,521
Amortisation charge	1,022	342	15	—	1,380

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

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

6 SEGMENT INFORMATION *(continued)*

Unaudited segment assets and liabilities as at 30 June 2016 are as follows:

	Traditional business RMB'000	E-commerce and smart community business RMB'000	All other segments RMB'000	Group RMB'000
2016				
Segment assets	572,851	992,765	586,925	2,152,541
Unallocated assets				540,810
Total assets				2,693,351
Segment liabilities	528,979	334,886	147,615	1,011,480
Unallocated liabilities				1,055,793
Total liabilities				2,067,273

The audited segment assets and liabilities as at 31 December 2015 are as follows:

	Traditional business RMB'000	E-commerce and smart community business RMB'000	All other segments RMB'000	Group RMB'000
2015				
Segment assets	867,722	784,787	25,878	1,678,387
Unallocated assets				1,035,955
Total assets				2,714,342
Segment liabilities	867,869	375,348	12,377	1,255,594
Unallocated liabilities				681,449
Total liabilities				1,937,043

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.

7 CAPITAL EXPENDITURE OTHER THAN INTANGIBLE ASSETS

	Land use rights RMB'000	Property, plant and equipment RMB'000	Investment properties RMB'000
Six months ended 30 June 2015			
Opening net book amount at 1 January 2015	48,149	223,280	5,745
Additions	—	17,526	—
Disposal	—	(50)	—
Amortisation and depreciation (Note 26)	(631)	(11,436)	(85)
Closing net book amount at 30 June 2015	47,518	229,320	5,660
Six months ended 30 June 2016			
Opening net book amount at 1 January 2016	**46,965**	**238,734**	**5,575**
Additions	**—**	**3,948**	**—**
Acquisition of a subsidiary	**—**	**213**	**—**
Disposals	**—**	**(442)**	**—**
Amortisation and depreciation (Note 26)	**(555)**	**(11,166)**	**(85)**
Closing net book amount at 30 June 2016	**46,410**	**231,287**	**5,490**

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 2016, land use rights and buildings with a net book amount of RMB11,453,000 and RMB123,885,000 respectively (31 December 2015: RMB11,471,000 and RMB126,569,000 respectively) had been pledged as collateral for the Group's bank borrowings of RMB48,000,000 (31 December 2015: RMB48,000,000) (Note 20).

As at 30 June 2016, land use rights, buildings and investment properties with a net book amount of RMB4,373,000, RMB22,665,000 and RMB5,491,000 respectively (31 December 2015: RMB4,453,000, RMB23,060,000 and RMB5,575,000 respectively) had been pledged as collateral for the Group's bank borrowings of RMB54,000,000 (31 December 2015: RMB54,000,000) (Note 20).

As at 31 December 2015, land use rights of a land parcel owned by a joint venture with a net book amount of RMB244,558,000 had been pledged as collateral for the Group's bank borrowings of RMB100,000,000 (Note 20). As at 30 June 2016, the land use rights of the land parcel was recorded in inventory (Note 12) with the acquisition of a subsidiary (Note 9).

As at 31 December 2015, land use rights and buildings with a net book amount of RMB25,192,000 and RMB30,780,000 respectively together with certain restricted bank deposits of RMB20,000,000 had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 and bank acceptance bills of RMB40,000,000.

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

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 RMB6,174,000 had they been stated at fair values as of 30 June 2016 (31 December 2015: RMB6,262,000). The fair values of the investment properties as at 30 June 2016 and 31 December 2015 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 2015					
Opening net book amount at 1 January 2015	34,060	—	1,050	2,319	37,429
Additions	—	—	—	811	811
Amortisation (Note 26)	—	—	(475)	(274)	(749)
Closing net book amount at 30 June 2015	34,060	—	575	2,856	37,491
Six months ended 30 June 2016					
Opening net book amount at 1 January 2016	—	—	222	3,450	3,672
Additions	—	—	—	1,500	1,500
Amortisation (Note 26)	—	—	(113)	(585)	(698)
Closing net book amount at 30 June 2016	—	—	109	4,365	4,474

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

8 INTANGIBLE ASSETS *(continued)*

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.

(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 2016 as impairment on the goodwill had been fully provided for as at 31 December 2012.

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.

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

No impairment charge arose during the course of the six months ended 30 June 2016 as impairment on the goodwill had been fully provided for as at 31 December 2015.

In year 2015, considering the actual business performance of Huainan Four Seas since the acquisition and severe market environment, the management of the Group believes that Huainan Four Seas's future performance under existing strategy will no longer meet management's expectation, either the value-in-use or fair value less costs of disposal can not recover the carrying amount of the goodwill as at 31 December 2015, therefore full impairment was provided.

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 LOAN TO A JOINT VENTURE AND BUSINESS COMBINATION

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 (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 31 December 2015, land use rights of the Land Parcel with a net book amount of RMB244,558,000 had been pledged as collateral for the Group's bank borrowings of RMB100,000,000 (Note 20).

On 27 January 2016, Yangzhou Huiyin and Huiyin Real Estate entered into a termination agreement (the "Termination Agreement") with Weiying, pursuant to which Weiying is no longer responsible to bear and contribute the development and construction costs of the Project nor is entitled to share any income or interest of the Project occurred at any time. Huiyin Real Estate is then a subsidiary of Yangzhou Huiyin.

9 INVESTMENT IN AND LOAN TO A JOINT VENTURE AND BUSINESS COMBINATION *(continued)*

(1) Reconciliation for investment in and loan to a joint venture before 27 January 2016, the combination date:

	Investment in a joint venture RMB'000	Borrowing to a joint venture RMB'000	Total RMB'000
Six months ended 30 June 2015			
At 1 Jauary 2015	20,600	236,376	256,976
Additions	—	7,884	7,884
Share of loss	(5,913)	—	(5,913)
At 30 June 2015	14,687	244,260	258,947
Period ended 27 January 2016, the combination date			
At 1 Jauary 2016	5,696	256,248	261,944
Additions	—	18,668	18,668
Share of loss	(1,148)	—	(1,148)
At 27 January 2016	4,548	274,916	279,464

As at 27 January 2016, investment in a joint venture included capital contributed of RMB50,000,000 (31 December 2015: RMB50,000,000) and share of loss of RMB45,452,000 (31 December 2015: RMB44,304,000), whereas borrowing to a joint venture included principal amount of RMB218,586,000 (31 December 2015: RMB201,386,000) and interest receivable of RMB56,330,000 (31 December 2015: RMB54,862,000). 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.

Name of entity	Place of business/country of incorporation	% of ownership interest (i)	Measurement method
Yangzhou Huiyin Real Estate Co., Ltd.	Yangzhou Jiangsu, PRC	93.14	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 27 January 2016, 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 RMB18,000,000(31 December 2015: RMB22,000,000). 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 percentage.

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

9 INVESTMENT IN AND LOAN TO A JOINT VENTURE AND BUSINESS COMBINATION *(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 27 January 2016, the combination date RMB'000	As at 31 December 2015 RMB'000
Current		
Cash and cash equivalents	16,789	301
Inventories	297,985	297,984
Other current assets	2,046	2,992
Total current assets	316,820	301,277
Liabilities	(43,483)	(41,097)
Non-current		
Assets	17,530	17,158
Net assets	290,867	277,338

9 INVESTMENT IN AND LOAN TO A JOINT VENTURE AND BUSINESS COMBINATION *(continued)*

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

(b) Summarised statement of comprehensive income

	Period ended 27 January 2016, the combination date RMB'000	Six moths ended 30 June 2015 RMB'000
Revenue	—	—
Administrative expenses	(95)	(2,241)
Finance income	44	215
Finance costs	(1,468)	(7,844)
Loss before income tax	(1,519)	(9,870)
Income tax credit	380	2,467
Loss for the period	(1,139)	(7,403)
Other comprehensive income or loss	—	—
Total comprehensive loss for the period	(1,139)	(7,403)
Dividends received or receivable from 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 LOAN TO A JOINT VENTURE AND BUSINESS COMBINATION *(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.

	Period ended 27 January 2016, the combination date RMB'000	Six moths ended 30 June 2015 RMB'000
Opening net assets	277,338	272,753
Contribution from venturers	14,668	7,884
Loss for the period	(1,139)	(7,403)
Closing net assets	290,867	273,234
Add/(less): Contribution from Weiying	(18,000)	(22,000)
Accumulated loss derived from expenses related to the Project and required to be borne by Weiying (i)	4,369	5,485
Excess of consideration paid in transaction with non-controlling interests	2,228	2,228
Carrying amount	279,464	258,947

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 statement of the Group, including the loss of RMB1,192,000 incurred before the date of loss of control which was previously recognised as non-controlling interests and then derecognised at the date of loss of control.

9 INVESTMENT IN AND LOAN TO A JOINT VENTURE AND BUSINESS COMBINATION *(continued)*

(2) Reconciliation of net assets acquired and other gain generated are as follows:

	As at 27 January 2016 the combination date RMB'000
Carry amount of investment in and loan to a joint venture	279,464
Fair value of investment in and loan to a joint venture	275,831
Losses arose from revaluation of investment in and loan to a joint venture (Note 25)	(3,633)
Fair value of investment in and loan to a joint venture	275,831
Cash and cash equivalents	16,789
Prepayments, deposits and other receivables	2,046
Inventory – Property under development	363,876
Property, plant and equipment	213
Deferred income tax assets	17,317
Accruals and other payables	(121,109)
Total net assets acquired	279,132
Gain arose from acquisition of a subsidiary (Note 25)	3,301

10 INVESTMENT IN AN ASSOCIATE

On 29 September 2014, Yangzhou Shengshi Xinxing Electronics Sales Co., Ltd (揚州盛世欣興電器銷售有限公司) ("Yangzhou Shengshi"), an indirectly owned subsidiary of the Company, together with 2 third-parties companies set up Taixing Huazhang Shengshi Huazhang Electronics Sales Co., Ltd. (泰興市盛世華章電器銷售有限公司) ("Huazhang") in Taixin, Jiangsu Province.

Huazhang has a registered capital of RMB5,000,000 of which Yangzhou Shengshi contributed RMB750,000 in cash, and the principal activities of Huazhang consist of household appliance trading.

Nature of investment in an associate as at 31 December 2015 and 30 June 2016:

Name of entity	Place and date incorporation	% of ownership interest	Nature of the relationship	Measurement method
Taixing Shengshi Huazhang Electronics Sales Co., Ltd.	Taixin Jiangsu,PRC 29 September 2014	15	Note (i)	Equity

Note:

(i) Huazhang mainly sales of air-conditioners in Taixing. Yangzhou Shengshi is the main supplier of Huazhang.

As at 30 June 2016, the carrying amount of the Group's interest in Huazhang was RMB957,084 (31 December 2015: RMB1,180,811). Huazhang is a private company and there is no quoted market price available for its shares and there is no contingent liabilities relating to the Group's interest in the associate.

Summarised financial information for associates

Set out below are the summarised financial information for Huazhang which are accounted for using the equity method.

(a) Summarised balance sheet

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Current		
Cash and cash equivalents	841	158
Inventories	3,929	5,545
Other current assets	2,225	2,290
Total current assets	6,995	7,993
Liabilities	(373)	(960)
Non-current		
Assets	31	32
Net assets	6,653	7,065

10 INVESTMENT IN AN ASSOCIATE *(continued)*

Summarised financial information for associates *(continued)*

(b) Summarised statement of comprehensive income

	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Revenue	1,598	32,698
Cost of sales	(1,835)	(31,161)
Selling expenses	(114)	(758)
Administrative expenses	(63)	(480)
Finance income	2	441
Finance costs	—	(57)
(Loss)/profit before income tax	(412)	683
Income tax expense	—	(4)
(Loss)/profit for the period	(412)	679
Other comprehensive income or loss	—	—
Total comprehensive (loss)/profit for the period	(412)	679
Dividends received or receivable from associate	—	—

Reconciliation of summarised financial information

Summarised financial information	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Opening net assets	7,065	4,565
(Loss)/profit for the period	(412)	679
Other Comprehensive income	—	—
Closing net assets	6,653	5,244
Interest in an associate (15%)	998	787
Unrealized profit elimination	(41)	(69)
Carrying value	957	718

11 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 2016 RMB'000	31 December 2015 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	3,379	7,437
– to be recovered after more than 12 months	44,897	162,351
	48,276	169,788
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	
	2016 RMB'000	2015 RMB'000
At beginning of the period	169,577	134,713
Acquisition of a subsidiary (Note 9)	17,317	—
Others (Note)	(119,146)	—
Recognised in the consolidated income statement (Note 28)	(19,683)	(3,051)
At end of the period	48,065	131,662

11 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 2015	12,357	1,949	190	3,353	116,188	887	134,924
Recognised in the consolidated income statement	12,730	(1,307)	632	2,724	(16,942)	(887)	(3,051)
At 30 June 2015	25,087	642	822	6,077	99,246	–	131,873
At 1 January 2016	31,171	2,591	1,127	3,719	131,180	–	169,788
Acquisition of a subsidiary (Note 9)	17,317	–	–	–	–	–	17,317
Recognised in the consolidated income statement (Note 28)	(458)	(2,431)	(855)	(771)	(15,168)	–	(19,683)
Reversal (Note) (Note 28)	(22,013)	–	–	–	(97,133)	–	(119,146)
At 30 June 2016	26,017	160	272	2,948	18,879	–	48,276

Note:

Because of restructuring of the Group's business, deferred tax assets of RMB119,146,000 arose from the traditional business were reversed.

Deferred income tax liabilities

	Withholding tax on unremitted earnings of PRC subsidiaries RMB'000
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	211

12 INVENTORIES

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Merchandise held for resale	201,195	302,418
Provision for obsolescence	(3,685)	(8,653)
	197,510	293,765
Property under development	374,582	—
Low value consumables	172	113
Total	572,264	293,878

As at 30 June 2016, merchandise held for resale of RMB35,000,000 (31 December 2015: RMB45,000,000) had been pledged as collateral for the Group's bank borrowings of RMB35,000,000 (31 December 2015: RMB45,000,000 (Note 20).

As at 30 June 2016, property under development of RMB374,582,000 had been pledged as collateral for the Group's bank borrowing of RMB100,000,000 (Note 20).

The property under development were held by a joint venture of the Group as at 31 December 2015, and was recorded in inventory as at 30 June 2016 with the acquisition of a subsidiary (Note 9).

13 TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade receivables	68,036	74,586
Less: Provision for impairment	(5,681)	(6,778)
Trade receivables, net	62,355	67,808
Bills receivable	9,733	15,808
Trade and bills receivables, net	72,088	83,616

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 2016 RMB'000	31 December 2015 RMB'000
0 - 30 days	26,911	4,822
31 - 90 days	33,904	56,946
91 - 365 days	1,512	6,214
1 year - 2 years	4,007	2,494
2 years - 3 years	1,230	2,806
Over 3 years	472	1,304
Total	68,036	74,586

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 2016 and 31 December 2015, no bills receivable had been pledged as collateral for the Group's bank acceptance bills.

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Advance payments to suppliers (including rebates receivable from suppliers), net of provision (Note a)	831,387	855,326
Prepaid rentals	14,988	16,319
Deposits	6,504	4,482
Other prepayments	7	856
Other receivables from third parties		
— Value added tax recoverable	32,935	41,469
— Receivable from a third party (Note b)	—	2,910
— Interests receivable from banks	2,604	3,730
— Amount paid on behalf of a supplier	820	164
— Staff advances	7,021	774
— Others	12,468	8,419
	908,734	934,449

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

Note:

(a) Accrual of provision of RMB87,112,000 (Six months ended 30 June 2015: Reversal of provision of RMB65,644,000) (Note 26) for impairment of supplier rebates receivable had been recognised during the period. The slow settlement of supplier rebates receivable had led to a worsen ageing and the decrement of the traditional business segment during the year had led to a weaken relationship with main suppliers. As at 30 June 2016, the Group accrued provision of rebates receivable according to the difference between the balance on book and the balance that the suppliers was willing to pay. As at 30 June 2016, the balance of provision for supplier rebates receivable was RMB739,329,000 (2015: RMB652,217,000).

(b) 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. As at 30 June 2016, fully accrual of provision of RMB2,910,000 for the receivable had been recognized.

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 2016, restricted bank deposits of RMB382,550,000 (31 December 2015: RMB466,805,000) had been pledged as collateral for the Group's bank acceptance bills of RMB567,217,000 (31 December 2015: RMB755,195,000) (Note 18).

As at 30 June 2016, restricted bank deposit of RMB53,000,000 had been pledged as collateral for the Group's trade acceptance bills of RMB93,000,000 (Note 18).

As at 30 June 2016, restricted bank deposits of RMB55,275,000 (31 December 2015: RMB55,275,000) had been pledged as collateral for the Group's bank borrowings of US$7,700,000, equivalent to RMB51,060,000 (31 December 2015: US$18,900,040, equivalent to RMB122,729,300) (Note 20).

As at 30 June 2016, restricted bank deposits of RMB750,000 (31 December 2015: RMB60,960,000) had been pledged as collateral for the Group's interest bearing advances from third parties of RMB7,500,000(31 December 2015: RMB68,200,000) (Note 19).

As at 31 December 2015, restricted bank deposits of RMB20,000,000 together with certain land use rights and buildings with a net book amount of RMB25,192,000 and RMB30,780,000 respectively had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 as well as the Group's bank acceptance bills of RMB40,000,000.

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 2016 (31 December 2015: 3.1%).

16 CASH AND CASH EQUIVALENTS

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Cash on hand		
– denominated in RMB	358	285
Cash at bank		
– denominated in RMB	310,958	59,954
– denominated in HK$	138	546
– denominated in US$	342	10,715
	311,438	71,215
	311,796	71,500

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

	As at	
	30 June 2016	31 December 2015
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 US$	Equivalent nominal value of ordinary shares RMB'000
Six months ended 30 June 2015 and 30 June 2016				
Authorised:				
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	US$0.001	2,000,000,000	2,000,000	10,598
Issued and fully paid:				
At 1 January 2015	US$0.001	1,155,394,017	1,155,394	7,819
Issue of new shares (a)	US$0.001	102,616,000	102,616	628
At 30 June 2015	US$0.001	1,258,010,017	1,258,010	8,447
At 1 January and 30 June 2016	**US$0.001**	**1,456,860,017**	**1,456,860**	**9,708**

Notes:

(a) On 5 June 2015, an aggregate of 102,616,000 ordinary shares of the Company had been successfully issued at the price of HK$ 1.77 per share. The gross proceeds amounted to approximately HK$177,984,000 (equivalent to RMB140,465,000).

(b) 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 2016, all 50,000,000 options were not exercised by anyone of the key management and senior management members. Those options with an excise price of HK$1.52 per share upon vesting were expired on 24 March 2015.

17 SHARE CAPITAL *(continued)*

Notes: (continued)

(c) The Group approved and launched the Share Option Scheme on 14 May 2015. Pursuant to the Share Option Scheme, the nine directors, an associate of a director and certain management members were granted the Share Options to subscribe for up to 100,000,000 shares of the Company. 50,000,000 shares shall vest on 14 August 2015, whilst the remaining ones shall vest on 14 May, 2016. The exercise price is HK$1.69 per share.

The fair value of the options granted determined using the binomial tree model was HK$73,041,950. The options have been divided into two parts according to different employees level.

The significant inputs to the model are summarised as below:

	Nine directors and an associate of a director	Management members
Fair market value per share as at valuation date (HK$)	1.69	1.69
Exercise price (HK$)	1.69	1.69
Exercise multiple	2.8	2.2
Risk-free rate	1.199%	1.199%
Volatility	61.95%	61.95%
Expected dividend yield	0.00%	0.00%
Post-vesting forfeiture rate	0%	20%

During the year 2015 and 6 months ended 2016, 100,000,000 shares were granted and 8,000,000 shares were forfeited. As at 30 June 2016, 92,000,000 shares were outstanding and exercisable. All outstanding options have the exercise price of HK$1.69 and will be expired on 13 May 2020.

(d) The Group approved and launched the Share Option Scheme on 22 December 2015. Pursuant to the Share Option Scheme, certain ordinary employees were granted the Share Options to subscribe for up to 145,680,000 shares of the Company and no director, associate of a director or key management member was granted the Share Options. All shares shall vest on 22 June 2016. The exercise price is HK$0.95 per share.

The fair value of the options granted determined using the binomial tree model was HK$59,728,800. The options have been divided into two parts according to different employees level.

The significant inputs to the model are summarised as below:

	Ordinary employees
Fair market value per share as at valuation date (HK$)	0.41
Exercise price (HK$)	0.95
Exercise multiple	2.2
Risk-free rate	1.46%
Volatility	67%
Expected dividend yield	0.00%
Post-vesting forfeiture rate	20%

As at 30 June 2016, all of the options were outstanding and exercisable, none of the options was forfeited. These options will be expired on 21 December 2025.

18 TRADE AND BILLS PAYABLES

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade payables	181,507	96,184
Bills payable	660,217	795,195
Total	841,724	891,379

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 2016 RMB'000	31 December 2015 RMB'000
0 - 30 days	161,784	62,560
31 - 90 days	5,534	18,600
91 - 365 days	11,972	9,893
1 year - 2 years	853	2,677
2 years - 3 years	1,033	1,270
Over 3 years	331	1,184
	181,507	96,184

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

18 TRADE AND BILLS PAYABLES *(continued)*

As at 30 June 2016, restricted bank deposits (Note 15) of RMB382,550,000 (31 December 2015: RMB466,805,000) had been pledged as collateral for the Group's bank acceptance bills of RMB567,217,000 (31 December 2015: RMB755,195,000).

As at 30 June 2016, restricted bank deposits (Note 15) of RMB53,000,000 had been pledged as collateral for the Group's trade acceptance bills of RMB93,000,000.

As at 31 December 2015, restricted bank deposits of RMB20,000,000 together with certain land use rights and buildings with a net book amount of RMB25,192,000 and RMB30,780,000 separately had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 as well as the Group's bank acceptance bills of RMB40,000,000.

19 ACCRUALS AND OTHER PAYABLES

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Advances from customers	74,982	143,784
Salary and welfare payables	22,337	23,650
Advance from a third party for subscription of ordinary shares of the Company (excluding guarantee deposit)	180,885	—
Guarantee deposit for subscription of ordinary shares of the Company due to a third party	89,115	—
Accrued expenses	8,958	9,380
Interest payables	73	798
Payables for purchase of equipment	920	146
Value added tax and other tax payables	1,002	1,742
Accrued volume discounts to distributors	642	10,363
Advance from third parties, interest free	312,100	33,000
Advances from third parties, interest bearing (Note 34)	7,500	68,200
Deposits	3,427	2,828
Others	1,128	7,284
Total	703,069	301,175

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 2016 RMB'000	As at 31 December 2015 RMB'000
Non-current		
Bond payables (a)	6,940	6,722
Current		
Bank borrowings (b)	355,228	464,729
Convertible bonds (c)	70,938	67,611
	426,166	532,340

Movement in borrowings is analysed as below:

	Bank borrowings RMB'000	Medium-term notes RMB'000	Convertible bonds RMB'000	Bond payables RMB'000
Six months ended 30 June 2015				
Opening amount as at 1 January 2015	661,168	386,900	—	—
Proceeds from bank borrowings	113,000	—	—	—
Repayments of bank borrowings	(409,131)	—	—	—
Net Proceeds from issuance of bond	—	—	—	6,244
Difference between nominal interests and effective interests on medium-term notes	—	2,330	—	—
Difference between nominal interests and effective interests on bond payables	—	—	—	21
Exchange differences	93	—	—	(13)
Closing amount as at 30 June 2015	365,130	389,230	—	6,252
Six months ended 30 June 2016				
Opening amount as at 1 January 2016	464,729	—	67,611	6,722
Proceeds from bank borrowings	112,808	—	—	—
Repayments of bank borrowings	(223,542)	—	—	—
Net Proceeds from issuance of bond	—	—	—	—
Difference between nominal interests and effective interests on bond payables	—	—	—	85
Valuation difference of Convertible bonds	—	—	3327	—
Exchange differences	1,233	—	—	133
Closing amount as at 30 June 2016	355,228	—	70,938	6,940

20 BORROWINGS *(continued)*

(a) Bond payables

On 22 January 2015, the Company entered into a Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to endeavour to procure Placees who are not and whose ultimate beneficial owner(s), if applicable, are not connected persons of the Company on a best effort basis to subscribe for the Bonds in an aggregate principal amount of up to HK$ 300,000,000 within the Placing Period. The Bonds will be placed in denomination of HK$ 2,500,000, at the interest rate of 6.0% per annum, and with a term of eight years.

As at 30 June 2016, the issuances of the Bonds with amount of HK$ 10,000,000 were completed and were repayable more than 2 years.

The proceeds from issuances of the Bonds were designated for developing the community e-commerce business of the Group.

(b) Bank borrowings

At 30 June 2016 and 31 December 2015, the Group's bank borrowings were repayable as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within 1 year	355,228	464,729

As at 30 June 2016, land use rights, buildings and investment properties (Note 7) with a total net book amount of RMB167,867,000 (31 December 2015: RMB227,104,000) had been pledged as collateral for the Group's bank borrowings of RMB102,000,000 (31 December 2015: RMB117,000,000).

As at 30 June 2016, restricted bank deposits (Note 15) of RMB55,275,000 (31 December 2015: RMB55,275,000) had been pledged as collateral for the Group's bank borrowings of US$7,700,000, equivalent to RMB51,060,000 (31 December 2015: US$18,900,040, equivalent to RMB122,729,300).

As at 30 June 2016, merchandise held for sale (Note 12) of RMB35,000,000 (31 December 2015: RMB45,000,000) had been pledged as collateral for the Group's bank borrowings of RMB35,000,000 (31 December 2015: RMB45,000,000).

As at 30 June 2016, property under development (Note 12) of RMB374,582,000 had been pledged as collateral for the Group's book borrowings of RMB100,000,000. As at 31 December 2015, land use rights of a land parcel (Note 7) with a net book amount of RMB244,558,000 had been pledged as collateral for the Group's bank borrowings of RMB100,000,000.

20 BORROWINGS *(continued)*

(b) Bank borrowings *(continued)*

As at 30 June 2016, the Group's bank borrowings of RMB17,168,000 had been guaranteed by a third party.

As at 30 June 2016, bank borrowings amounting to RMB50,000,000 (31 December 2015: RMB80,000,000) 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 2016 RMB'000	31 December 2015 RMB'000
6 months or less	355,228	205,910
6-12 months	—	258,819
	355,228	464,729

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 2016 RMB'000	31 December 2015 RMB'000
Current		
– RMB	304,168	342,000
– US dollar	51,060	122,729
	355,228	464,729

As at 30 June 2016, bank borrowings with the carrying amounts of RMB51,060,000 (31 December 2015: RMB122,729,000) are of floating rates and bank borrowings with the carrying amounts of RMB304,168,000 (31 December 2015: RMB342,000,000) are of fixed rates.

20 BORROWINGS *(continued)*

(b) Bank borrowings *(continued)*

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

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Current	**4.75%**	4.15%

(c) Convertible bonds

On 14 August 2015, the Group issued convertible bonds of HK$ 80,000,000 (equivalent to RMB65,984,000) at the interest rate of 4.0%. The bonds mature one year from issue date at their nominal value of HKD 80,000,000 or can be converted into shares at the holder's option at the maturity date at the rate of one share per HKD 1.19. The number of shares to be issued does not vary with changes in their fair value, but the the amount of cash to be exchanged is not fixed. The Group designated the instrument as financial liabilities at fair value through profit or loss as a whole.

The convertible bonds recognised in the balance sheet is calculated as follows:

	2016 RMB'000
Face value as at 1 January 2016	**67,611**
Losses arising from fair value remeasurement (Note 27)	**3,327**
Fair value as at 30 June 2016	**70,938**

The fair value of the convertible bonds determined using the subsequent redeemed amount was approximately HK$ 83,000,000 (equivalent to RMB70,938,000).

(d) 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. On 20 August 2015, the Group's medium-term notes were fully repaid.

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 2015, 30 June 2015, 1 January 2016 and 30 June 2016	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 2016, no fair value changes were recognised (Six months ended 30 June 2015: Nil) (Note 25) in the consolidated income statement for the contingent consideration arrangement. As at 30 June 2016, the fair value of the contingent consideration liabilities of RMB53,560,000 (31 December 2015: 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	
	2016 RMB'000	2015 RMB'000
Sales of goods		
– Traditional business	306,600	905,710
including:		
Retail	150,770	328,416
Bulk distribution	155,830	577,294
– Online distribution channels	318,430	302,742
	625,030	1,208,452
Rendering of services		
– Maintenance and installation service	5,035	5,795
– Agency service for sales of lotteries	—	7,807
	5,035	13,602
Total revenue	630,065	1,222,054

24 OTHER INCOME

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Income from suppliers on promotion activities	1,566	3,610
Rental income	1,680	3,362
Membership fee income	1,103	—
Government subsidies	100	2,684
	4,449	9,656

25 OTHER LOSSES - NET

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Gain arose from acquisition of a subsidiary (Note 9)	3,301	—
Losses arose from revaluation of investment in and loan to a joint venture (Note 9)	(3,633)	—
Losses on disposal of property, plant and equipment, net	(46)	(6)
	(378)	(6)

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	
	2016 RMB'000	2015 RMB'000
Cost of merchandise before deducting supplier rebates	823,087	1,389,064
Supplier rebates	(221,890)	(337,455)
Taxes and levies on main operations	1,088	1,922
Employee benefit expenses - including the directors' emoluments	37,252	35,021
Share Option Scheme expenses	44,832	15,844
Service charges	709	2,975
Operating lease expenses in respect of buildings and warehouses	17,186	23,166
Promotion and advertising expenses	10,947	13,350
Amortisation of land use rights (Note 7)	555	631
Depreciation of property, plant and equipment (Note 7)	11,166	11,436
Depreciation of investment properties (Note 7)	85	85
Amortisation of intangible assets (Note 8)	698	749
Utilities and telephone expenses	3,951	4,135
Transportation expenses	4,120	6,147
Entertainment fees	2,243	3,139
Travelling expenses	3,052	3,173
Office expenses	2,704	1,471
(Reversal)/accrual of provision for obsolescence on inventories (Note 12)	(4,968)	2,274
(Reversal)/accrual of provision for impairment on trade receivables (Note 13)	(1,097)	624
Accrual of provision for impairment on receivable from a third party (Note 14)	2,910	—
Accrual/(reversal) of provision for advance payments to suppliers(Note 14)	87,112	(65,644)
Property tax and other taxes	1,131	1,076
Auditor's remuneration	1,500	1,475
Bank charges	2,712	3,179
Consulting expenses	95	130
Others	8,876	6,032
Total of cost of sales, selling and marketing expenses and administrative expenses	840,056	1,123,999

27 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Finance income		
– Interest income on bank deposits	5,834	11,525
– Interest income from borrowing to a joint venture	1,467	7,845
	7,301	19,370
Finance costs		
– Interest expenses on discounting of bills receivable	(14,051)	(12,464)
– Interest expenses on bank borrowings	(10,128)	(10,799)
– Interest expenses on medium-term notes	—	(13,027)
– Interest expenses on bonds payable	(339)	—
– Losses arising from fair value remeasurement of convertible bonds (Note 20)	(3,327)	—
– Net foreign exchange (losses)/gain on cash and cash equivalents, bank borrowings and bond payables	(185)	200
	(28,030)	(36,090)
Finance costs - net	(20,729)	(16,720)

28 INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
PRC enterprise and withholding income taxes		
– Current income tax	(110,756)	29,736
– Deferred income tax (Note 11)	138,829	3,051
	28,073	32,787

28 INCOME TAX EXPENSE *(continued)*

(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 2016 (30 June 2015: Nil).

(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 2016 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 2015: Nil).

29 (LOSS)/EARNINGS 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	
	2016	2015
(Losses)/profit attributable to equity holders of the Company (RMB'000)	**(244,071)**	55,361
Weighted average number of ordinary shares in issue (thousand)	**1,456,860**	1,172,497
Basic (loss)/earnings per share (RMB cents)	**(16.75)**	4.72

29 (LOSS)/EARNINGS 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	
	2016	2015
(Losses)/Profit attributable to equity holders of the Company (RMB'000)	(244,071)	55,361
Weighted average number of ordinary shares in issue (thousand)	1,456,860	1,172,497
Adjustment for:		
– Settlement in ordinary shares for the contingent consideration arising from business combination (thousand)	–	43,542
Weighted average number of ordinary shares for diluted loss/earnings per share (thousand)	1,456,860	1,216,039
Diluted (loss)/earnings per share (RMB cents)	(16.75)	4.55

For the six months ended 30 June 2016, the impact of settlement in ordinary shares for the contingent consideration arising from business combination, exercise of the share options granted under the Share Option Scheme and exercise of the conversion right of the convertible bonds was anti-dilutive.

For the six months ended 30 June 2015, the impact of exercise of the share options granted under the Share Option Scheme was anti-dilutive.

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 2016 (30 June 2015: Nil).

31 COMMITMENTS

(a) Property development expenditure commitments

The Group's property development expenditure committed but not yet incurred are as follows:

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Not later than 1 year	18,720	—
Later than 1 year and not later than 5 years	46,299	—
	65,019	—

(b) 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 2016 RMB'000	31 December 2015 RMB'000
Not later than 1 year	49,966	40,812
Later than 1 year and not later than 5 years	119,195	84,300
Later than 5 years	59,393	9,333
	228,554	134,445

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 2016 RMB'000	31 December 2015 RMB'000
Not later than 1 year	4,532	5,065
Later than 1 year and not later than 5 years	351	2,560
	4,883	7,625

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 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the years presented.

Name	Relationship with the Group
Mr. Cao Kuanping	Substantial shareholder of the Company/Director
Huiyin Real Estate (Note 9)	A joint venture of the Group until 27 January 2016
Huazhang (Note 10)	An associate of the Group

(b) Transactions with related parties

Other than the transactions with Huiyin Real Estate as disclosed in note 9 and note 27, the following transactions were undertaken by the Group with related parties during the period:

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
– Sales of goods to an associate		
Huazhang	–	25,109
– Rental expenses to a related party		
Mr. Cao Kuanping	1,867	1,825
– Directors' emoluments		
Salaries, bonuses and other welfares	4,856	10,710

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.

33 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Salaries and other allowances	**1,794**	2,354
Social security costs	**151**	195
Option Scheme expenses	**1,740**	7,061
Other benefits	**1,171**	1,100
	4,856	10,710

(d) Balances with related parties

Other than the balances with Huiyin Real Estate as disclosed in note 9 and the balance of advance from a shareholder for subscription of ordinary shares of the Company, the Group had the following balances with related parties:

	As at	
	30 June 2016	31 December 2015
	RMB'000	RMB'000
Trade Balances due to related parties:		
Advances from an associate for purchases of goods		
– Huazhang	**–**	300
Non-trade Balances due to related parties:		
Salaries and welfares payable to directors		
– Mr. Cao Kuanping	**–**	152
– Mr. Mao Shanxin	**–**	19
– Mr. Mo Chihe	**–**	24
– Mr. Wang Zhijin	**–**	69
– Mr. Lu Chaolin	**–**	19
– Ms. Hu Yanyu	**–**	50
	–	333

34 CONTINGENCIES

On 11 April 2014, the Group had entered into certain facilities agreements with certain third-party customers of the Group and a bank to execute guarantees in favour of the bank for the total facility of RMB20,700,000 with the expiring date of 11 April 2016. As at 31 December 2015, such facilities were all utilised by those customers, including the amount of RMB9,600,000 were lent to the Group with an expiring date within 1 year and an effective interest rate of 8.04% (Note 19), the rest of RMB11,000,000 were obtained by those customers under the facility agreements. During the period, RMB2,000,000 of the facilities was extended to 9 January 2017, RMB8,000,000 of the facilities was extended to 21 March 2017, and the remaining facilities were expired and repaid. As at 30 June 2016, such facilities were all utilised by those customers, including the amount of RMB6,000,000 and RMB1,500,000 were lent to the Group with an expiring date within 1 year and an effective interest rate of 6.50% and 7% respectively (Note 19), and the rest of RMB2,500,000 were obtained by those customers under the facility agreements. As at 30 June 2016, the total amounts of facilities used which the Group executed guarantees for were RMB10,000,000 (31 December 2015: RMB20,700,000). As at 30 June 2016, restricted bank deposits of RMB750,000 (31 December 2015: RMB9,600,000) (Note 15) had been pledged as collateral for it. No provision in relation to the guarantees has been recognised in the condensed consolidated financial statements as in the directors' opinion, it is not probable that significant liability will arise (31 December 2015: nil).

As at 30 June 2016, the Group had been defending several legal actions brought by third parties in the PRC, with the total claim amount of RMB8,300,000 (2015: RMB8,300,000). After seeking advices from PRC lawyers, the Group 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.

35 SUBSEQUENT EVENTS

On July 2016, an aggregate of 262,000,000 subscription shares have been successfully issued and allotted at the subscription price of HKD0.80 per subscription share. The net proceeds from the subscription amounted to approximately HKD209,600,000.

On July 2016, the Group early redeemed all of the outstanding convertible bond at the aggregate amount of approximately HKD83,000,000 which included the principal of HKD80,000,000 and interest of approximately HKD3,000,000.