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

2017
Interim Report

汇银家电连锁
HUIYIN HOUSEHOLD APPLIANCE CHAIN

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Contents

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Song Liwu
Mr. Wang Cai

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

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AUDITOR

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Certified Public Accountants
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SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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PRINCIPAL BANKERS

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China Merchant Bank (Yangzhou Branch)
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PRC

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 2017, 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 2017 increased to 6.9%. 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 2017 was RMB17,236.9 billion, representing an increase of 10.4% over the same period of last year. Retail sales of consumer goods in urban areas was approximately RMB14,778.6 billion, representing an increase of 10.1% over the same period of last year, while those in rural areas was approximately RMB2,458.3 billion, representing an increase of 12.3% over the same period of last year. Notably, the online retail sales reached approximately RMB3,107.3 billion, representing an increase of 33.4% 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 2017, the disposable income per capita of residents was RMB12,932.0, representing an actual increase of 7.3% 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 continuous Chinese people's demand for a high quality life and the vigorously promoted internet, online to offline ("O2O") business has become a new source of consumption growth. New consumption models have been developed and consumption upgrading has been promoted. 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, import merchandise business, and community e-commerce operator, and was striving to be a leader of smart community life service platform and in the import merchandise 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 life service platform rapidly, and applied the thinking of Internet + to constitute a perfect closed-loop of our business model. Stores have been opened in second-tier cities such as Nanjing City and Suzhou City to expand our network into first and second-tier markets. Taking advantage of its famous brand name "Huiyin" and "Huiyin Lehu • Global Community (滙銀樂虎 • 全球家)", the Group further enhanced the brand awareness of the "Huiyin" and "Huiyin Lehu" brand in the consumer market, expanded the range of products and services available, and captured the change in consumption temperament and shopping habit of consumers.

Supported by its existing retail business, the Group actively expanded all business segments through self-operated stores and its extensive sales network. During the period under review, to enhance the customer royalty, with supply chain management and customer relationship management as the core, the Group further standardized its internal operation and communication, and provided extensive after-sales and logistic services to consumers. 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 2017, the Group had 45 self-operated stores, including 29 general stores, 3 brand retail stores and 13 import merchandise experience bases. For the six months ended 30 June 2017, total revenue of the Group was approximately RMB681.9 million, representing an increase of 8.2% as compared with approximately RMB630.1 million for the same period in 2016. Profit of the Group for the period was approximately RMB16.0 million, while loss for the same period in 2016 was approximately RMB256.1 million. Gross profit margin increased to 16.2%, representing an increase of 11.8 percentage points. The substantial increase in the profit was mainly attributable to decrease in 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 e-commerce and import merchandise business, and decrease in the provisions made by the Group in respect of the amounts due from suppliers of prepayment and rebate receivable.

E-commerce and import merchandise business

By the online to offline sales network of "Huiyin Lehu • Global Community (滙銀樂虎 • 全球家)", the Group's e-commerce and import merchandise business developed rapidly. During the period under review, revenue through the "Huiyin Lehu • Global Community" was approximately RMB325.9 million, representing an increase of 2.3% from RMB318.4 million for the same period in 2016. Sales revenue through e-commerce and import merchandise business includes retail sales ("business to customers" ("B2C")) of household appliance and import merchandise and bulk distribution ("business to business" ("B2B")) of household appliance.

Import business

As the economy developed, Chinese middle class is growing fast, and the consumer market is presenting a tendency of changing from satisfying basic needs to meeting diversified demand and consumption upgrading. 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 import merchandise business. In response to this situation, the Group entered into the import merchandise business from the end of Year 2015.

During the period under review, the Group's import merchandise business developed rapidly. As at 30 June 2017, partnering with "Ningbo Free Trade Zone Administrative Committee (寧波保税區管委會)" and other carefully selected suppliers, the Group has established "Huiyin Lehu" branded import merchandise experience bases in Yangzhou City, Nanjing City, Nantong City, Taizhou City, Suzhou City and Hefei City. The import merchandise experience bases usually have a business area of 3000-5000 square meters, and provide with thousands of import merchandise including maternal and infant products, food, cosmetics, personal care products, healthcare products, and wine etc. The Group has been seeking to purchase selected merchandise directly from producers. With less intermediate agencies, this advantage enables the Group to provide customers with products of higher quality with lower price, and meanwhile suppliers can get payment more quickly. Through the effective supply chain management, our inventory turnover increased and costs are well controlled. We can achieve the target of win-win together with the suppliers.

The Group has launched the membership system during the period under review. Adhere to customer-centric principle, we lay emphasis on membership experience. Customers can enjoy the member preferential price as well as prominent services by investing in the membership. Kinds of membership activities were held to build close connections with them. Sales of the membership not only brings steady cash flow to the Group, but also increases customer loyalty. Members can also order import merchandise through our online platform. Two new brands named "Huiyin Lehu • Global Community (滙銀樂虎 • 全球家)" and "Excellent Home (優家)" were created to support the import merchandise business. This business model was welcomed by local government, which enabled 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 organising an e-commerce professional team. Mobile application, wechat mall, electronic shelves and PC terminal went live and helped to increase online traffic in all channels. A mobile application for the brand "Huiyin Lehu • Global Community (滙銀樂虎 • 全球家)" had been developed. During the period under review, in order to enhance customer experience and cater to user habits, the Group has been optimising the user interface, system management, as well as ordering and payment process based on customer feedback continuously. Membership statistics from offline stores has been synchronized to the online application to get through the online and offline membership system. We also use content marketing on the online platform. Online social media distribution and feedback sharing was provided to promote user interaction and activity. Merging and leveraging the flood of data from customers, new approach such as big data analysis and personas was used to model user interest and provide appropriate purchase recommendations to users accordingly. Along with offline promotion and high-quality logistic system, the Group attracts consumers and improves consumer loyalty successfully.

With the support of 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 ("O2O")" business integration allowed centralized management of the Group's downstream business.

To really solve the "last mile" problem of O2O business, in-store multi-media terminals are connected with the online platform which enables 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 at agreed time, or pick-up by themselves from 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 maintenance service to bring more convenience to residents. In addition, to fulfill our corporate social responsibility, the Group organizes public welfare activities regularly, which is also helped to improve our brand awareness.

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. Benefited from the rapid development of technology, household appliances have become more functionalized, intelligent and personalized, and the smart household appliances have great significance on improving the quality of life. As people pay more attention to the comfort and safety on daily life, demand for central air-conditioning, central heating as well as fresh air system have been growing fast. With growing public concern over environment pollution, the Group launched a series of health-care products, such as air purifier and water cleaner to meet customers' needs. To improve profitability of its business, the Group also focused on supply chain management and inventory management, and maintained long-term cooperation relationship with household manufacturers.

In respect of client management, the Group continued to implement its business strategies focusing on client relationship management with efforts including 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 sales network, enhanced 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 and corporate advertisement, the Group improved its overall competitiveness and operation efficiency effectively during the period under review.

Bulk distribution business

The Group distributes as a supplier to its franchised stores as well as other independent third parties, which mainly include household appliance retailers and corporate customers. With the help of an extensive well-developed sales network in the third and fourth-tier markets, the Group well understands consumers' demand and preferences in target market, which enabled 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, due to the burden of extensive investment in working capital of the bulk distribution business, the Group surrendered certain distribution rights from the end of year 2015 so as to support the new e-commerce and import merchandise business and smooth our transition process.

Client services: after-sales and logistics management

Offering of after-sales services is not only an important contributor to the continuous Group's businesses but also a competitive advantage of the Group. The Group offers a broad range of installation and maintenance services for household appliance products purchased from the Group or from other third party vendors and suppliers, which also provides satisfactory services and technical support for the Group's businesses. During the period under review, the Group offered free 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 investment and operational risks. As at 30 June 2017, the Group operated and managed a total of 35 authorized service centers, which provided thoughtful and diversified after-sales warranty services for consumers across a broad geographical area.

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 established 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 adopted diversified marketing and brand promotion strategies and has flexibly established strategic store locations in different areas. During the period under review, the Group continued to upgrade and renovate stores, optimized store distribution and product structure and made improvements in sales, management and services. 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 "Smart Community Service Marketing (智慧社區服務營銷)" 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 change of the Old for New Program offered to attract community consumer.

In respect of brand marketing, by combing traditional marketing strategies with innovative media, the Group 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, parent-child activities 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 to optimize its operations and management. Informatisation platform has been implemented to integrate the management of inventory, logistic and client service system. During the period under review, the Group modified management system to cope with the development of import merchandise business. We have also implemented membership management system to analyse membership data and provide members with outstanding services. Furthermore, mobile communication platform has been used to optimise customer experience and improve the efficiency of client services.

Information-based human resources management

As at 30 June 2017, the Group had 1,285 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 15 training sessions in various aspects, with a total of approximately 800 participating employees.

Outlook

In the second half of 2017, challenges will remain for the global economy, retail business will continue to face significant operational pressures 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 import merchandise direct selling operator in China. Household appliance sales 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 bring new development opportunities for domestic household appliances market.

In the second half of 2017, 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. The Group will copy the successful model of import merchandise experience base in other cities in Yangtze River Delta. Furthermore, the import merchandise business will enter into the first-tier city. This is of great significance to the Group's transformation. In addition to self-operated stores, the Group will also expand franchised stores. Meanwhile, the Group will actively implement its brand marketing strategy, enhance its brand image (including further optimization of the Group's integrated online platform covering various aspects such as procurement, sales and customer services), reinforce the cultivation of members and franchisees, and improve the Group's overall asset management efficiency, so as to deepen the Group's relationship with suppliers and customers. In addition, service-oriented and customer-focused, the Group plans to strengthen corporate culture, internal management and upgrade the development of "Huiyin Business School" in order to train more retail and e-commerce talents and provide customers with professional services.

The transformation of our Group to be a leader of smart community e-commerce platform and import merchandise direct selling industry in China has found its most suitable business model, and the road is promising. Looking ahead to the coming year, the Group will deploy its network resources according to the expansion plan and to develop a strategic alliance with its suppliers, to pursue the Group's leading position in the consumer markets. The Group will improve the interaction with community resources and provide creative service to customers, to further reinforce the awareness of the "Huiyin" and "Huiyin Lehu • Global Community" brand in target market through traditional business, as well as e-commerce and import merchandise business. The integration and interplay between online and offline business will bring about more convenience to residents and promote our smart community life service strategy. Through these strategies, the board (the "Board") of directors (the "Directors") believes 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 business development, and recovery in the household appliances consumer market, the Group's revenue was approximately RMB681.9 million, representing an increase of 8.2% from approximately RMB630.1 million for the same period of 2016.

Turnover of the Group comprises revenues by operation as follows:

	Six months ended 30 June			
	2017 RMB'000		2016 RMB'000	
Sales from traditional business				
– Retail	143,104	21.0%	150,770	23.9%
– Bulk distribution	206,530	30.3%	155,830	24.7%
Sales from e-commerce and import merchandise business	325,926	47.8%	318,430	50.5%
Rendering of services	6,302	0.9%	5,035	0.8%
Total revenue	681,862	100.0%	630,065	100.0%

Cost of sales

Cost of sales decreased by approximately 5.1% from RMB602.3 million for the six months ended 30 June 2016 to RMB571.6 million for the six months ended 30 June 2017, primarily due to an increase in rebate received from suppliers as deductions to cost of sales.

Gross profit

Our gross profit increased by approximately 296.4% from RMB27.8 million for the six months ended 30 June 2016 to RMB110.2 million for the six months ended 30 June 2017.

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Traditional business	20.6%	0.7%
E-commerce and import merchandise business	10.8%	7.0%
Maintenance and installation services	66.8%	64.4%
Overall	16.2%	4.4%

During the period under review, the gross profit margin of the traditional business increased, which was primarily due to recovery in the household appliances consumer market.

Other income

During the period under review, the Group recorded other income of approximately RMB17.6 million, representing an increase from approximately RMB4.4 million for the same period in 2016, which is mainly due to the increase in the sales of membership, income from suppliers on promotion activities and government subsidy.

Other losses

During the period under review, the Group recorded other losses of approximately RMB49,000, representing a decrease from approximately RMB378,000 for the same period in 2016.

Selling and marketing expenses

During the period under review, the Group's total selling and marketing expenses amounted to approximately RMB89.3 million, representing an increase from approximately RMB71.2 million for the same period in 2016, which is mainly due to the increase of employee benefit expenses resulting from the rapid expansion of e-commerce and import merchandise business.

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

	Six months ended 30 June	
	2017	2016
Employee benefit expenses	4.70%	3.02%
Service charges	0.17%	0.11%
Operating lease expenses in respect of buildings and warehouses	2.55%	2.98%
Promotion and advertising expenses	1.80%	1.77%
Depreciation and amortisation	0.84%	1.37%
Utilities and telephone expenses	0.51%	0.50%
Transportation expenses	0.54%	0.62%
Travelling expenses	0.10%	0.13%
Others	1.89%	0.79%
Total selling and marketing expenses	13.10%	11.30%

Administrative expenses

During the period under review, the Group's total administrative credit amounted to approximately RMB9.5 million, while expenses approximately RMB166.6 million for the same period of 2016, which was mainly due to the reversal of provision for impairment on prepayment to suppliers, and the decrease of share option expenses and impairment provision on rebate receivable from suppliers.

The following table sets out a summary for administrative expenses:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Employee benefit expenses	**16,155**	18,211
Share option expenses	**—**	44,832
Operating lease expenses in respect of buildings	**614**	1,767
Utilities and telephone expenses	**723**	738
Travelling expenses	**1,677**	2,236
Auditors' remuneration	**1,763**	1,500
Consulting expenses	**625**	94
Amortisation and depreciation	**4,819**	4,492
(Reversal)/accrual of provision for impairment on prepayment to and rebate receivable from suppliers	**(40,743)**	87,112
Others	**4,886**	5,614
Total administrative expenses	**(9,481)**	166,596

The Group enters into agreement with various suppliers whereby the Group is entitled to inventory purchase rebates primarily upon achievement of specified volume purchasing levels. The Group assesses the entitled supplier rebates as earned, and adjusts them by taking into consideration of the estimated recoverability based on the historical settlement record and the future purchase plan of the Group from these suppliers. The provision for impairment on receivables was mainly due to making of certain provision for advance payment to and rebates receivable 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 group reversed impairment provision of RMB40,743,000 for advance payment to a supplier upon receipt of repayment of the advance payment subsequently as that supplier had not fulfilled the Group's orders for merchandise.

Further details on the accruals of rebates from suppliers and provision for supplier rebates receivable are set out in the paragraph headed "Key Audit Matters – Accruals of rebates from suppliers and provision for supplier rebates receivable" in the independent auditor's report, and note 4(a) headed "Accruals of rebates from suppliers and provision for supplier rebates receivable" in the annual report for the year ended 31 December 2016 of the Group.

The share option expenses incurred by the Group for the six months ended 30 June 2016 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, under share option schemes launched on 14 May 2015 and 22 December 2015.

Operating profit/(loss)

Profit from operations was approximately RMB47.9 million for the six months ended 30 June 2017, while there was an operating loss amounting to approximately RMB205.9 million for the same period in 2016.

Finance costs – net

During the period under review, the Group's net finance costs was approximately RMB16.2 million, representing a decrease from approximately RMB20.7 million for the six months ended 30 June 2016.

Share of loss of a joint venture

During the six months ended 30 June 2017, share of loss of a joint venture was share of loss of Jiangsu Huisheng Supply Chain Management Co., Ltd. (江蘇滙晟供應鏈管理有限公司) ("Huisheng"). On 22 January 2017, Yangzhou Huiyin Technology Group Co., Ltd. (揚州滙銀科技集團有限公司) ("Yangzhou Huiyin"), an indirectly owned subsidiary of the Company, together with Yangzhou Maikensu Investment Partnership (揚州麥肯蘇投資合夥企業), a limited partnership established in the PRC and a non-controlling interest party of certain indirectly owned subsidiaries of the Company, and Jinjia Asset Management Co., Ltd. (金甲資產管理有限公司), an independent third party limited liability company established in the PRC, set up Huisheng in Nanjing, Jiangsu Province. During the six months ended 30 June 2017, Huisheng has a net loss of RMB2.9 million and the Group recognised share of loss of Huisheng of RMB1.6 million.

During the six months ended 30 June 2016, share of loss of a joint venture amounting to RMB1.1 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 owned by Huiyin Real Estate. On 27 January 2016, the co-operation agreement was terminated and Huiyin Real Estate became a subsidiary of the Group and the assets, liabilities and financial results of Huiyin Real Estate was consolidated in the financial statement of the Group since then. Before the termination of the co-operation agreement, the Group recognised share of profit and loss of Huiyin Real Estate by applying equity method, and loss of Huiyin Real Estate was mainly due to the interest expense from borrowing owed to the Group, which became intra-group charges thereon.

On 16 December 2016, the Group entered into an equity transfer agreement, pursuant to which the Group sold and transferred all the equity interest held in Huiyin Real Estate to a third party. Upon completion of the transaction, Huiyin Real Estate ceased to be a subsidiary of the Group.

Share of loss of associates

During the first half of 2017, share of loss of an associate amounting to RMB11,000 (Six months ended 30 June 2016: RMB183,000) 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., an indirectly owned subsidiary of the Company, together with 2 third party companies on 29 September 2014. The Group recognised share of profit and loss of Huazhang by applying equity method.

Profit/(loss) before income tax

During the period under review, the profit before income tax was approximately RMB30.1 million, while there was loss of approximately RMB228.0 million for the same period of 2016.

Income tax

During the period under review, the Group's income tax expense was approximately RMB14.1 million, representing 46.7% of the profit before income tax, while there was income tax expense of approximately RMB28.1 million, representing 12.3% of the loss before income tax for the same period of 2016.

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

The Group's profit attributable to equity holders for the period under review was approximately RMB22.4 million, while there was loss attributable to equity holders of approximately RMB244.1 million for the same period in 2016.

Cash and cash equivalents

As at 30 June 2017, the Group's cash and cash equivalents were approximately RMB51.8 million, representing a decrease of 67.4% from approximately RMB159.1 million at the end of 2016.

Inventories

As at 30 June 2017, the Group's inventories amounted to approximately RMB250.5 million, representing an increase from RMB228.5 million at the end of 2016.

Prepayments, deposits and other receivables

As at 30 June 2017, prepayments, deposits and other receivables of the Group amounted to approximately RMB709.8 million, representing an increase from approximately RM499.8 million at the end of 2016, which was mainly due to the increase of advance payments to suppliers as a result of the recovery of domestic household appliances consumer market.

Trade and bills receivables

As at 30 June 2017, trade and bills receivables of the Group amounted to approximately RMB84.5 million, representing an increase of 23.4% from approximately RMB68.5 million at the end of 2016, which was mainly due to the recovery of domestic household appliances consumer market.

Trade and bills payables

As at 30 June 2017, trade and bills payables of the Group amounted to approximately RMB491.7 million, representing a decrease of 42.2% from approximately RMB850.9 million at the end of 2016, which was mainly due to the decrease of bills payable.

Gearing ratio and the basis of calculation

As at 30 June 2017, gearing ratio of the Group was 43.6%, representing a decrease from 48.1% as at 31 December 2016. The gearing ratio equals 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 RMB26.1 million, representing an increase from approximately RMB4.7million for the same period in 2016, which is mainly due to the investment in a joint venture.

Cash flows

During the period under review, net cash outflow from operating activities of the Group amounted to approximately RMB132.5 million as compared to approximately RMB189.7 million for the same period in 2016. The lower net cash outflow was mainly due to the better control in the working capital compared with the same period in 2016.

Net cash outflow from investing activities amounted to approximately RMB38.3 million, while there was net cash inflow from investing activities amounted to approximately RMB2.3 million for the same period in 2016, which was mainly due to increase of available for sale financial assets and investment in a joint venture.

Net cash inflow from financing activities amounted to approximately RMB63.5 million, as compared to approximately RMB427.9 million for the same period in 2016, which was mainly due to the decrease of proceeds from advance of subscription of new shares and advance from third parties. 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 2017, the interest-bearing borrowings of the Group amounted to RMB311.3 million, representing a decrease from RMB312.4 million as at 31 December 2016.

Pledging of assets

As at 30 June 2017, the Group's pledged bank deposits amounted RMB262.0 million. Certain land use rights, buildings and investment properties with a total net book amount of RMB167.8 million had been pledged.

Contingent liabilities

As at 30 June 2017, the Group had no contingent liability which has not been properly accrued for except for certain unfounded legal claims which the Group does not expect to incur any significant loss.

Foreign currencies and treasury policy

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

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 RMB 137.9 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 2017, 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 2017) (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 2017, the Group had 1,285 employees, increased by 12.9% from 1,138 at the end of 2016.

INTERIM DIVIDEND

The Board of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2017.

SHARE OPTION SCHEME

On 5 March 2010, the Group 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.

In 2015, directors of the Company, an associate of two directors and certain employees of the Group were granted with share options to subscribe for up to 245,680,000 shares of the Company 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 two directors, and 8,000,000 share options were forfeited.

As at the balance sheet date, the outstanding share options granted under the Share Option Scheme is analysed as follows:

	Number of share Options					
Name	As at 1 January 2017	Granted during the 6 month period	Exercised during the 6 month period	Cancelled/ Lapsed during the 6 month period	As at 30 June 2017	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	0.06%
Mo Chihe						
Executive Director	10,000,000	–	–	–	10,000,000	0.58%
Mao Shanxin						
Executive Director (Note)	1,000,000	–	–	–	1,000,000	0.06%
Wang Zhijin						
Executive Director and Chief Financial Officer	8,000,000	–	–	–	8,000,000	0.47%
Lu Chaolin						
Executive Director and Vice General Manager	5,000,000	–	–	–	5,000,000	0.29%
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) (Note)	1,000,000	–	–	–	1,000,000	0.06%
Others						
Employees	210,180,000	–	–	–	210,180,000	12.23%
	237,680,000	–	–	–	237,680,000	

Note:

Mr. Mao Shanxin has resigned as an executive director of the Company with effect from 1 June 2017 as his duties in the Group have been modified to focus only on the supervision and management of the Group's franchising operation.

The 100,000,000 share options granted on 14 May 2015 under the Share Option Scheme may only become exercisable in accordance with the following vesting schedule:

(i) 50,000,000 share options became exercisable at any time during the period commencing on 14 August 2015 and ending on 13 May 2020;

(ii) the remaining 50,000,000 share options became 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)(i) to the unaudited condensed consolidated interim financial statements of this interim report.

The 145,680,000 share options granted on 22 December 2015 under the Share Option Scheme became exercisable at any time during the period commencing on 22 June 2016 and ending on 21 December 2025.

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, 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)	19.73%
		Beneficial owner	1,000,000 underlying Shares (L)	0.06%
		Spouse interest	1,000,000 underlying Shares (L)	0.06%
Lu Chaolin	The Company	Beneficial owner	5,000,000 underlying Shares (L)	0.29%
Mo Chihe	The Company	Beneficial owner	10,000,000 underlying Shares (L)	0.58%
Wang Zhijin	The Company	Beneficial owner	8,000,000 underlying Shares (L)	0.47%
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	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 2017, 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	19.73%
Tianjin Bohai Commodity Exchange Corporation (Note 1) ("Tianjin Bohai")	The Company	Interest in controlled corporation	262,000,000	15.24%
Fuxin Investment Holding Co., Ltd.	The Company	Beneficial owner	131,197,727	7.63%
Mao Shanzhen	The Company	Beneficial owner	1,000,000 Underlying Shares (L) (Note 2)	0.06%
		Spouse Interest	340,103,625 (Note 2)	19.79%

(L) denotes long position.

Note:

(1) The 262,000,000 shares were held by Baoshi (Tianjin) E-commerce Company Limited as beneficial owner, which was controlled by Tianjin Bohai.

(2) These underlying shares represent the 1,000,000 share options held by Ms. Mao Shanzhen granted by the Company under the Share Option Scheme on 14 May 2015. 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"

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from 1 January 2017 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 35(b) to the unaudited condensed consolidated interim financial statements in this interim report, during the six months ended 30 June 2017, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB1,872,000. 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 "Jiangsu Huiyin Tenancy Agreement") and a tenancy agreement with Yangzhou Huide Electronics Distribution Co., Ltd. as tenant (the "Huide Tenancy Agreement", together with the Jiangsu 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.

The Guarantee provided by Jiangsu Ruihua Investment Holding Group Company Limited ("Jiangsu Ruihua") under the Guarantee Agreement constitutes financial assistance to the Group and a continuing connected transaction between the Group and a connected person at the subsidiary level. It is exempt from the circular, independent financial advice and shareholders' approval requirement under Rule 14A.101 of the Listing Rules. Mr. Cao Kuanping is the Chairman of the Board, an executive Director and a substantial shareholder of the Company, and thus a connected person of the Company at the issuer level. The counter guarantee provided by Mr. Cao Kuanping under the Counter Guarantee Agreement constitutes financial assistance to the Group and a continuing connected transaction. As the counter guarantee provided by Mr. Cao Kuanping in favour of Jiangsu Ruihua is conducted on normal commercial terms or better and it is not secured by the assets of the Group, this counter guarantee is thus fully exempt from shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules. For details of these transactions, please refer to the announcement of the Company dated 9 December 2016.

The Second Guarantee provided by Jiangsu Ruihua under the Second Guarantee Agreement constitutes financial assistance to the Group and a continuing connected transaction between the Group and a connected person at the subsidiary level. It is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules. Mr. Cao Kuanping is a connected person of the Company at the issuer level. The counter guarantee provided by Mr. Cao Kuanping under the Second Counter Guarantee Agreement constitutes financial assistance to the Group and a continuing connected transaction. As the counter guarantee provided by Mr. Cao Kuanping in favour of Jiangsu Ruihua is conducted on normal commercial terms or better and it is not secured by the assets of the Group, this counter guarantee is thus fully exempt from shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules. For details of these transactions, please refer to the announcement of the Company dated 25 May 2017.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the 2016 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Name of Director	Details of changes
Mr. Wang Zhijin	– Ceased to act as an independent director of 上海飛凱光電材料股份有限公司 Shanghai Phichem Material Co., Ltd. (stock code: 300398), a company listed on the Shenzhen Stock Exchange with effect from 15 March 2017 – Appointed as a director of 上海飛凱光電材料股份有限公司 Shanghai Phichem Material Co., Ltd. (stock code: 300398), a company listed on the Shenzhen Stock Exchange with effect from 15 March 2017

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 2017 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 31 May 2017 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 2017 to 30 June 2017.

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 2017. 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 2017.

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 2017 to 30 June 2017, 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 2017.

EVENT AFTER REPORTING PERIOD

As stated in the announcement of the Company dated 4 August 2017, an aggregate of 339,100,000 subscription shares have been successfully issued and allotted at the subscription price of HK$0.81 per subscription share. The net proceeds from the subscription amounted to approximately HKD274,371,000 and will be used as general working capital of the Group and for development of the existing business of the Group.

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 25 August 2017

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	45,302	45,857
Property, plant and equipment	7	224,787	225,737
Investment properties	7	5,320	5,405
Intangible assets	8	3,083	3,744
Investment in a joint venture	9	16,097	—
Investment in associates	9	923	934
Deferred income tax assets	10	9,348	11,486
		304,860	293,163
Current assets			
Inventories	11	250,524	228,547
Trade and bills receivables	12	84,486	68,524
Prepayments, deposits and other receivables	13	709,792	499,756
Restricted bank deposits	14	262,013	646,712
Available for sale financial assets	15	18,000	—
Cash and cash equivalents	16	51,767	159,118
		1,376,582	1,602,657
Total assets		1,681,442	1,895,820
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	11,462	11,462
Reserves		325,082	302,852
		336,544	314,314
Non-controlling interests in equity		66,959	22,436
Total equity		403,503	336,750

The notes on pages 30 to 72 are an integral part of these condensed consolidated interim financial statements.

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	7,231	7,358
Deferred income tax liabilities	10	211	211
Deferred government grants	21	2,672	2,701
		10,114	10,270
Current liabilities			
Trade and bills payables	18	491,657	850,852
Accruals and other payables	19	396,441	326,047
Borrowings	20	304,085	305,084
Current income tax liabilities		22,082	13,257
Contingent consideration liabilities	22	53,560	53,560
		1,267,825	1,548,800
Total liabilities		1,277,939	1,559,070
Total equity and liabilities		1,681,442	1,895,820

The notes on pages 30 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 2017 RMB'000	2016 RMB'000
Revenue	23	681,862	630,065
Cost of sales	26	(571,632)	(602,285)
Gross profit		110,230	27,780
Other income	24	17,600	4,449
Other losses— net	25	(49)	(378)
Selling and marketing expenses	26	(89,325)	(71,175)
Administrative expenses	26	9,481	(166,596)
Operating profit		47,937	(205,920)
Finance income	27	4,168	7,301
Finance costs	27	(20,358)	(28,030)
Finance costs — net	27	(16,190)	(20,729)
Share of loss of a joint venture	9, 33	(1,603)	(1,148)
Share of loss of associates	9	(11)	(183)
Profit/(loss) before income tax		30,133	(227,980)
Income tax expense	28	(14,086)	(28,073)
Profit/(loss) for the period		16,047	(256,053)
Attributable to:			
– Equity holders of the Company		22,436	(244,071)
– Non-controlling interests		(6,389)	(11,982)
		16,047	(256,053)
Earnings/(loss) per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	29	1.31	(16.75)
– Diluted	29	1.10	(16.75)
Dividends	30	—	—

The notes on pages 30 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	
	2017 RMB'000	2016 RMB'000
Profit/(loss) for the period	16,047	(256,053)
Other comprehensive income or loss	—	—
Total comprehensive profit/(loss)for the period	16,047	(256,053)
Attributable to:		
– Equity holders of the Company	22,436	(244,071)
– Non-controlling interests	(6,389)	(11,982)
	16,047	(256,053)

The notes on pages 30 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	Accumulated loss RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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	34	–	–	–	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
Balance at 1 January 2017		11,462	1,380,409	28,007	82,998	(1,188,562)	314,314	22,436	336,750
Profit/total comprehensive profit for the six months ended 30 June 2017		–	–	–	–	22,436	22,436	(6,389)	16,047
Capital contribution from a non-controlling interest		–	–	–	–	–	–	53,000	53,000
Return of capital to non-controlling interests for liquidation of a subsidiary	34	–	–	–	(206)	–	(206)	(1,038)	(1,244)
Dividend paid by a subsidiary to non-controlling interests	34	–	–	–	–	–	–	(1,050)	(1,050)
Total transactions with owners, recognised directly in equity		–	–	–	(206)	–	(206)	50,912	50,706
Balance at 30 June 2017		11,462	1,380,409	28,007	82,792	(1,166,126)	336,544	66,959	403,503

The notes on pages 30 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 2017 RMB'000	2016 RMB'000
Cash flows from operating activities:			
Cash used in operations		(115,486)	(159,411)
Interest paid		(13,896)	(25,024)
Income tax paid		(3,123)	(5,268)
Net cash used in operating activities		(132,505)	(189,703)
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(7,720)	(4,074)
Purchase of intangible assets	8	—	(600)
Proceeds from disposal of property, plant and equipment	7	44	396
Capital contribution to a joint venture	9	(17,700)	—
Additional loan to a joint venture	33	—	(17,200)
Cash acquired from acquisition of a subsidiary	33	—	16,789
Increase in investment in available for sale financial assets	15	(18,000)	—
Interest received		5,071	6,960
Net cash (used in)/generated from investing activities		(38,305)	2,271
Cash flows from financing activities:			
Proceeds from bank borrowings	20	95,000	112,808
Proceeds from advance from a related party	19	100,000	—
Proceeds from advance from third parties	19	—	216,600
Proceeds from advance from a third party for subscription of ordinary shares of the Company	19	—	270,000
Repayments of bank borrowings	20	(94,763)	(223,542)
Repayments of advance from third parties	19	(87,758)	(68,200)
Net decrease in restricted cash relating to financing activities	14	360	60,210
Capital contribution from non-controlling interests	34	53,000	60,000
Return of capital to non-controlling interests upon liquidation of a subsidiary	34	(1,244)	—
Dividends paid by a subsidiary to non-controlling interests	34	(1,050)	—
Net cash generated from financing activities		63,545	427,876
(Decrease)/increase in cash and cash equivalents		(107,265)	240,444
Cash and cash equivalents at beginning of the period	16	159,118	71,500
Exchange differences on cash and cash equivalents		(86)	(148)
Cash and cash equivalents at end of the period	16	51,767	311,796

The notes on pages 30 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 retail and bulk distribution sales of household appliances, e-commerce and import merchandise 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 2017 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 2016, 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 25 August2017.

These condensed consolidated interim financial statements have not been audited.

2.1 Going Concern

The Group meets its day-to-day working capital requirements through its operating cash inflow and banking facilities. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's merchandises; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current banking facilities secured by the Group's assets and guaranteed by related parties together with its internally generated funds from operating cash flows. After making necessary enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 20.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for available for sale financial assets that are non-derivatives intended to be disposed of within 12 months of the end of the reporting period; and the estimation of income tax using the tax rate that would be applicable to the total annual earnings and the adoption of amendments to HKFRSs effective for the financial year beginning on 1 January 2017.

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

- Amendments to HKAS 12 "Income Taxes"
- Amendments to HKAS 7 "Statement of Cash Flows"
- Interpretation of HK(IFRIC) 23 "Uncertainty over Income Tax Treatments"
- Amendments to HKFRS 12 "Disclosure of Interest in Other Entities"

The adoption of the above new standard, amendments and improvements beginning on 1 January 2017 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 2017.

(b) The following are new standards and amendments to HKFRSs that have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:

- HKFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018)
- HKFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018)
- HKFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)
- Amendments to HKFRS 10 and HKAS 28 "Regarding sale or contribution of assets between an investor and its associate or joint venture" (effective for annual periods to be announced)

The Group has not early adopted any new accounting and financial reporting standards or amendments to existing standards which have been issued but are not yet effective for the six months ended 30 June 2017. The Group is in the process of making an assessment on the impact of these new standards and amendments and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position, except for the new financial reporting standard HKFRS 15 "Revenue from Contracts with Customers" and HKFRS 16 "Leases" which the Group is not yet in a position to conclude.

4 CRITICAL ACCOUNTING 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 2016.

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 2016.

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

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 2017					
Borrowings (Note 20)	83,600	186,517	33,968	—	10,000
Interest payments on borrowings (note)	3,863	2,440	503	473	1,589
Trade and bills payables (Note 18)	294,707	196,950	—	—	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 19)	217,866	—	—	—	—
	600,036	385,907	34,471	473	11,589
As at 31 December 2016					
Borrowings (Note 20)	69,186	25,000	210,898	—	10,000
Interest payments on borrowings (note)	3,362	2,828	3,323	400	1,754
Trade and bills payables (Note 18)	649,242	201,610	—	—	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables, salary and welfare payables (Note 19)	211,673	7,500	—	—	—
	933,463	236,938	214,221	400	11,754

Note:

The interest payments on borrowings are calculated based on borrowings held as at 30 June 2017 and 31 December 2016 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 available for sale financial assets (Note 15),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 2017:

	Available for sale financial assets	Contingent consideration liabilities arising from business combination RMB'000
Opening balance	—	(53,560)
Additions	18,000	—
Losses recognised in profit or loss	—	—
Closing balance	18,000	(53,560)
Change in unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the period	—	—

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 RMB'000
Opening balance	(67,611)	(53,560)
Losses recognised in profit or loss	(3,327)	—
Closing balance	(70,938)	(53,560)
Change in unrealised losses for the year included in profit or loss for liabilities held at the end of the year	(3,327)	–

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 the available for sale financial assets and 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 2017 and 31 December 2016, the fair values of all financial assets and liabilities approximate their carrying amounts.

6 SEGMENT INFORMATION

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

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

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

- Traditional business, included the results from sales of household appliances through retail and wholesale channels.
- E-commerce and import merchandise business, included the results from sales of household appliances and import merchandise through online channels and sales of import merchandise through retail channel.

Other operations of the Group mainly comprise provision of maintenance and installation services to customers, and real estate business from January 2016 with the acquisition of a subsidiary to October 2016 with the disposal of a subsidiary.

6 SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2017 are as follows:

	Traditional business RMB'000	E-commerce and import merchandise business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	489,904	325,926	6,302	—	822,132
Inter-segment revenue	(140,270)	—	—	—	(140,270)
Revenue from external customers	349,634	325,926	6,302	—	681,862
Operating profit/(loss)	9,357	(816)	2,237	37,159	47,937
Finance costs - net					(16,190)
Share of loss of a joint venture					(1,603)
Share of loss of associates					(11)
Profit before income tax					30,133
Income tax expense					(14,086)
Profit for the period					16,047
Other segment items are as follows:					
Capital expenditure	5,032	3,347	—	17,700	26,079
Depreciation charge	5,705	3,240	419	—	9,364
Amortisation charge	790	383	—	—	1,173

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

	Traditional business RMB'000	E-commerce and import merchandise 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)*

Unallocated mainly represented the expenses incurred in the Group, such as reversal of provision for impairment of prepayments to suppliers, share option schemes expenses, certain key management compensation and exchange gains/(losses) arising from the bank deposits and bank borrowings 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.

Unaudited segment assets and liabilities as at 30 June 2017 are as follows:

	Traditional business RMB'000	E-commerce and import merchandise business RMB'000	All other segments RMB'000	Group RMB'000
2017				
Segment assets	868,926	433,247	5,979	1,308,152
Unallocated assets				373,290
Total assets				1,681,442
Segment liabilities	443,017	311,429	3,857	758,303
Unallocated liabilities				519,636
Total liabilities				1,277,939

The audited segment assets and liabilities as at 31 December 2016 are as follows:

	Traditional business RMB'000	E-commerce and import merchandise business RMB'000	All other segments RMB'000	Group RMB'000
2016				
Segment assets	725,739	482,946	5,343	1,214,024
Unallocated assets				681,792
Total assets				1,895,820
Segment liabilities	634,377	397,462	1,983	1,033,822
Unallocated liabilities				525,248
Total liabilities				1,559,070

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, available for sale financial assets, deferred tax assets, restricted bank deposits pledged for bank borrowings and advances from a third parties and corporate assets.

Segment liabilities comprise operating liabilities and exclude items such as deferred income tax liabilities, current income tax liabilities, borrowings and advances from third parties and a related party 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 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
Six months ended 30 June 2017			
Opening net book amount at 1 January 2017	45,857	225,737	5,405
Additions	—	8,379	—
Disposals	—	(50)	—
Amortisation and depreciation (Note 26)	(555)	(9,279)	(85)
Closing net book amount at 30 June 2017	45,302	224,787	5,320

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 2017, land use rights and buildings with a net book amount of RMB11,195,000 and RMB125,366,000 respectively (31 December 2016: RMB11,196,000 and RMB122,118,000 respectively) had been pledged as collateral for the Group's bank borrowings of RMB43,600,000 (31 December 2016: RMB43,600,000) (Note 20).

As at 30 June 2017, land use rights, buildings and investment properties with a net book amount of RMB4,213,000, RMB21,870,000 and RMB5,320,000 respectively (31 December 2016: RMB4,293,000, RMB22,267,000 and RMB5,405,000) had been pledged as collateral for the Group's bank borrowings of RMB54,000,000 (31 December 2016: RMB54,000,000) (Note 20).

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

The Group chose 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. As at 30 June 2017, the carrying amount of the investment properties would have been RMB5,739,000 had they been stated at fair values (31 December 2016: RMB 6,029,000). The fair values of the investment properties as at 30 June 2017 and 31 December 2016 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 was 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 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
Six months ended 30 June 2017					
Opening net book amount at 1 January 2017	—	—	—	3,744	3,744
Disposal	—	—	—	(43)	(43)
Amortisation (Note 26)	—	—	—	(618)	(618)
Closing net book amount at 30 June 2017	—	—	—	3,083	3,083

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

(i) Impairment tests for goodwill

Goodwill is allocated to the Group's CGU identified according to operating segment. Goodwill of RMB 14,163,000 is allocated to the CGU of Nanjing Chaoming Technology Development Co., Ltd. ("Nanjing Chaoming") and RMB 34,060,000 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 2017 as impairment on the goodwill had been fully provided for during the year ended 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.

8 INTANGIBLE ASSETS *(Continued)*

(i) Impairment tests for goodwill *(Continued)*

(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 2017 as impairment on the goodwill had been fully provided for during the year ended 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.

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

No impairment charge arose during the course of the six months ended 30 June 2017 as impairment on the distribution agreement arose from the acquisition of Nanjing Chaoming had been fully provided for during the year ended 31 December 2012.

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, management of the Group assessed the recoverable amount of the distribution agreement and concluded that there was no future economic benefits expected, therefore impairment charge of RMB 18,342,000 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 A JOINT VENTURE AND INVESTMENT IN ASSOCIATES

INVESTMENT IN A JOINT VENTURE

On 22 January 2017, Yangzhou Huiyin together with Yangzhou Maikensu Investment Partnership (揚州麥肯蘇投資合夥企業) ("Yangzhou Maikensu"),a limited partnership established in the PRC, and a non-controlling interest party of certain indirectly owned subsidiaries of the Company and Jinjia Asset Management Ltd. (金甲資產管理有限公司) ("Jinjia"), an independent third party limited liability company established in the PRC, set up Jiangsu Huisheng Supply Chain Management Co., Ltd. (江蘇滙晟供應鏈管理有限公司) ("Huisheng") in Nanjing, Jiangsu Province, the PRC.

Huisheng has a registered capital of RMB50,000,000, of which Yangzhou Huiyin committed to contribute RMB27,500,000 in cash, and the principal activities of Huisheng is supply chain management services.

Name of entity	Place and date incorporation	% of ownership interest	Nature of the relationship	Measurement method
Jiangsu Huisheng Supply Chain Management Co., Ltd.	Nanjing Jiangsu, PRC 22 January 2017	55 (Notes a)	Note b	Equity

Note:

(a) Although the Group owns more than half of the equity interests in Huisheng, it is not able to gain power over more than one half of the voting rights due to an agreement with other investors. Consequently, the Group accounted for the profit and loss of Huisheng and its underlying assets and liabilities by applying equity method in the Group's consolidated financial statements.

(b) Huisheng is strategic for the Group's growth and provides the Group with access to expertise in supply chain management processes for its import merchandise business.

During the six months ended 30 June 2017, Huisheng has a net loss of RMB2,914,000 and the Group recognised share of loss of Huisheng of RMB1,603,000. As at 30 June 2017, the carrying amount of the Group's interest in Huisheng was RMB16,097,000, including capital contribution by the Group of RMBB17,700,000 and share of loss of Huisheng of RMB1,603,000. Huisheng 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 joint venture.

INVESTMENT IN ASSOCIATES

(i) Equity investment in Taixing Shengshi Huazhang Electronics Sales Co., Ltd.

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

Huazhang has a registered capital of RMB 5,000,000 of which Yangzhou Shengshi contributed RMB750,000 in cash, and the principal activities of Huazhang is household appliance trading.

9 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES *(Continued)*

INVESTMENT IN ASSOCIATES *(Continued)*

(i) Equity investment in Taixing Shengshi Huazhang Electronics Sales Co., Ltd. *(Continued)*

Nature of investment in Huazhang as at 31 December 2016 and 30 June 2017:

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	Equity

Note:

Huazhang is mainly engaged in sales of air-conditioners, and the Group is its main supplier. Huazhang is a strategic partnership for the Group, providing access to new customers and markets in Taixing City.

During the six months ended 30 June 2017, Huazhang has a net loss of RMB75,000 (six months ended 30 June 2017: RMB412,000) and the Group recognised share of loss of Huazhang of RMB11,000 (six months ended 30 June 2016: RMB183,000) according to the Group's interest in Huazhang. As at 30 June 2017, the carrying amount of the Group's interest in Huazhang was RMB923,000 (31 December 2016: RMB934,000). 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.

(ii) Equity investment in Nanjing Haihuitong Supply Chain Service Co., Ltd.

On 12 December 2016,Yangzhou Huiyin, together with Yangzhou Yinhua Investment Consultation Co., Ltd. (揚州銀華企業投資諮詢有限公司) ("Yangzhou Yinhua"), a limited liability company established in the PRC and wholly owned by Mr. Cao Kuanping, a director of the Company, Nanjing Jingjiandongkang Trading Co., Ltd. (南京靜健動康貿易有限公司) ("Nanjing Jingjiandongkang"), a limited liability company established in the PRC and Yangzhou Maikensu, set up Nanjing Haihuitong Supply Chain Services Co., Ltd. (南京海滙通供應鏈服務有限公司) ("Haihuitong") in Nanjing, Jiangsu Province, the PRC.

Haihuitong has a registered capital of RMB300,000,000, of which Yangzhou Huiyin committed to contribute RMB45,000,000 in cash, and the principal activities of Haihuitong consists of domestic trading, import and export business, enterprise management consulting services, and supply chain management services.

Nature of investment in Haihuitong as at 31 December 2016 and 30 June 2017:

Name of entity	Place and date incorporation	% of ownership interest	Nature of the relationship	Measurement method
Nanjing Haihuitong Supply Chain Service Co., Ltd.	Nanjing Jiangsu, PRC 12 December 2016	15	Note	Equity

Note:

Haihuitong mainly engaged in the bulk distribution of import merchandise and the Group is its main supplier. Haihuitong is strategic for the Group's growth in the market of Jiangsu Province.

As at 30 June 2017, neither the Group nor any other parties contributed capital to Haihuitong, and the net assets of Haihuitong and the carrying amount of the Group's interest in Haihuitong was not material (31 December 2016: nil). Haihuitong 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.

10 DEFERRED INCOME TAX

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	3,647	6,096
– to be recovered after more than 12 months	5,701	5,390
	9,348	11,486
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	
	2017 RMB'000	2016 RMB'000
At beginning of the period	11,275	169,577
Acquisition of a subsidiary (Note 33)	—	17,317
Recognised in the consolidated income statement (Note 28)	(2,138)	(19,683)
Reversal (Note)	—	(119,146)
At end of the period	9,137	48,065

10 DEFERRED INCOME TAX *(continued)*

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

Deferred income tax assets

	Tax losses RMB'000	Accrued volume discounts to the distributors and franchisees RMB'000	Accrued expenses RMB'000	Unrealised profits elimination RMB'000	Provisions RMB'000	Total RMB'000
At 1 January 2016	31,171	2,591	1,127	3,719	131,180	169,788
Acquisition of a subsidiary (Note 33)	17,317	–	–	–	–	17,317
Recognised in the consolidated income statement	(458)	(2,431)	(855)	(771)	(15,168)	(19,683)
Reversal (Note)	(22,013)	–	–	–	(97,133)	(119,146)
At 30 June 2016	26,017	160	272	2,948	18,879	48,276
At 1 January 2017	5,390	–	3,196	2,862	38	11,486
Recognised in the consolidated income statement	311	–	(1,686)	(851)	88	(2,138)
At 30 June 2017	5,701	–	1,510	2,011	126	9,348

Note:

These deferred income tax assets were mostly related to provision for impairment of rebate receivables from suppliers, following the adjustment on the supplier rebate receivables resulting from the restructure of the Group's business, deferred tax assets of RMB119,146,000 were also reversed.

Deferred income tax liabilities

	Withholding tax on unremitted earnings of PRC subsidiaries RMB'000
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	211

11 INVENTORIES

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Merchandise held for resale	253,621	230,540
Provision for obsolescence	(3,354)	(2,123)
	250,267	228,417
Low value consumables	257	130
Total	250,524	228,547

As at 30 June 2017, no merchandise held for resale had been pledged.

As at 31 December 2016, merchandise held for resale of RMB15,000,000 had been pledged as collateral for the Group's bank borrowings of RMB15,000,000 (Note 20).

12 TRADE AND BILLS RECEIVABLES

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Trade receivables	78,353	66,637
Less: Provision for impairment	(4,513)	(3,253)
Trade receivables, net	73,840	63,384
Bills receivable	10,646	5,140
Trade and bills receivables, net	84,486	68,524

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.

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
0 - 30 days	45,485	23,619
31 - 90 days	19,497	34,675
91 - 365 days	8,858	3,433
1 year - 2 years	3,388	1,619
2 years - 3 years	829	2,442
Over 3 years	296	849
Total	78,353	66,637

As at the balance sheet date, all trade and bills receivables were dominated in RMB, and their carrying amounts approximated their fair values. Also, the maximum exposures of the Group to credit risk from trade and bills receivables were the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security.

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Prepayments to suppliers, net of provision	554,163	318,810
Rebate receivables from suppliers, net of provision	71,318	97,403
Prepaid rentals	11,015	15,678
Deposits	5,919	6,101
Other prepayments	908	93
Other receivables from third parties, net of provision		
— Value added tax recoverable	39,468	27,376
— Amount due from a third party for disposal of subsidiary	4,141	20,000
— Interests receivable from banks	1,343	2,246
— Amount paid on behalf of a supplier	9,264	2,825
— Staff advances	1,107	1,752
— Others	11,146	7,472
	709,792	499,756

During the period, provision for impairment of prepayment to suppliers of RMB40,743,000 was reversed (six months ended 30 June 2016: nil) (Note 26) as certain supplier fully repaid the prepayment made by the Group for orders of merchandise subsequently. As at 30 June 2017, there was no provision for prepayments to suppliers (31 December 2016: RMB40,743,000).

During the period, no provision for impairment of rebate receivables from suppliers was recognised (six months ended 30 June 2016: RMB87,112,000) (Note 26). As at 30 June 2017 and 31 December 2016, balance of provision for rebate receivables from suppliers was RMB922,146,000.

During the period, no provision for impairment of other receivables was recognised (six months ended 30 June 2016: provision for impairment of RMB2,910,000 on receivable from a third party was recognised) (Note 26). As at 30 June 2017 and 31 December 2016, balance of provision for impairment of other receivables was RMB8,525,000.

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

14 RESTRICTED BANK DEPOSITS

As at 30 June 2017, restricted bank deposits of RMB145,660,000 (31 December 2016: RMB529,999,000) had been pledged as collateral for the Group's bank acceptance bills of RMB344,040,000 (31 December 2016: RMB728,710,000) (Note 18).

As at 30 June 2017, restricted bank deposits of RMB56,353,000 (31 December 2016: RMB55,963,000) had been pledged as collateral for the Group's bank borrowings of US$7,600,000, equivalent to RMB51,485,000 (31 December 2016: US$7,600,000, equivalent to RMB52,721,000) (Note 20).

As at 30 June 2017, restricted bank deposits of RMB60,000,000 (31 December 2016: RMB60,000,000) had been pledged as collateral for an interest bearing advance of the Group from a third party of RMB58,700,000 (31 December 2016: RMB58,700,000) (Note 19).

As at 31 December 2016, restricted bank deposits of RMB750,000 had been pledged as collateral for the guarantees of certain facilities with certain third-party customers of the Group and a bank, under which the Group utilised RMB7,500,000 as interest bearing advances (Note 19).

As at 30 June 2017 and 31 December 2016, all restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date. As at 30 June 2017, the weighted average interest rate per annum on restricted bank deposits was 2.4% (31 December 2016: 2.2%).

15 AVAILABLE FOR SALE FINANCIAL ASSETS

As at 30 June 2017, the available for sale financial assets were debt securities of RMB18,000,000 (31 December 2016: nil) denominated in RMB with variable interest and redeemable on demand. As at the balance sheet date, these debt securities had exposure to credit risk for their carrying value, and none was past due or impaired.

16 CASH AND CASH EQUIVALENTS

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Cash on hand		
– denominated in RMB	450	763
Cash at bank		
– denominated in RMB	50,945	156,676
– denominated in HK$	67	420
– denominated in US$	305	1,259
	51,317	158,355
	51,767	159,118

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

	As at 30 June 2017	As at 31 December 2016
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:

Authorised:

	Number of authorised shares
Six months ended 30 June 2016 and 30 June 2017	
At 1 January 2016, 30 June 2016, and 1 January 2017	2,000,000,000
Additions	2,000,000,000
At 30 June 2017	**4,000,000,000**

Issued and fully paid

	Number of issued shares US$0.001 each	Equivalent nominal value of ordinary shares RMB'000
Six months ended 30 June 2016		
At 1 January 2016 and 30 June 2016	1,456,860,017	9,708
Six months ended 30 June 2017		
At 1 January 2017 and 30 June 2017	**1,718,860,017**	**11,462**

17 SHARE CAPITAL *(continued)*

(a) Increase in authorised share capital

Pursuit to the ordinary resolution of annual general meeting of the Company held on 31 May 2017, by the creation of 2,000,000,000 additional Shares, the authorised share capital of the Company increased from US$2,000,000 divided into 2,000,000,000 Shares to US$4,000,000 divided into 4,000,000,000.

(b) Issue of new shares

On 30 June 2016, an aggregate of 262,000,000 ordinary shares of the Company had been successfully issued at the price of HK$ 0.80 per share. The gross proceeds amounted to approximately HK$209,600,000 (equivalent to RMB 180,885,000).

(c) Share Option Scheme

On 5 March 2010, the Group 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.

(i) Share options granted on 14 May 2015

On 14 May 2015, pursuant to the Share Option Scheme, the Group granted nine directors of the Company, an associate of two directors and certain management members of the Group with share options to subscribe for up to 100,000,000 shares of the Company. Among the 100,000,000 share options, 35,500,000 share options were granted to directors of the Company and an associate of two directors. These share options had an exercise price of HK$1.69 per share, and 50,000,000 shares vested on 14 August 2015, and 50,000,000 shares vested on 14 May 2016.

Fair value of the options granted determined using the binomial tree model was HK$ 73,041,950. The share options was divided into two parts according to different employee level.

The significant inputs to the model are summarised as below:

	Nine directors and an associate of two directors	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 six months ended 30 June 2017 and six months ended 30 June 2016, no share option was granted, exercised or forfeited. As at 30 June 2017, 92,000,000 share options were outstanding and exercisable (31 December 2016: 92,000,000). These options will be expired on 13 May 2020.

17 SHARE CAPITAL *(continued)*

(c) Share Option Scheme *(continued)*

(ii) Share options granted on 22 December 2015

On 22 December 2015, pursuant to the Share Option Scheme, the Group granted certain ordinary employees of the Group with 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. These share options had an exercise price of HK$0.95 per share and vested on 22 June 2016.

Fair value of the options granted determined using the binomial tree model was HK$ 59,728,800.

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%

During the six months ended 30 June 2017 and six months ended 30 June 2016, no share option was granted, exercised or forfeited. As at 30 June 2017, 145,680,000 share options were outstanding and exercisable (31 December 2016: 145,680,000). These options will be expired on 21 December 2025.

18 TRADE AND BILLS PAYABLES

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade payables	147,617	122,142
Bills payable	344,040	728,710
Total	491,657	850,852

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

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
0 - 30 days	104,912	93,457
31 - 90 days	18,231	10,147
91 - 365 days	22,692	13,449
1 year - 2 years	628	2,675
2 years - 3 years	221	1,493
Over 3 years	933	921
	147,617	122,142

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

As at 30 June 2017, restricted bank deposits of RMB145,660,000 (31 December 2016: RMB529,999,000) (Note 14) had been pledged as collateral for the Group's bank acceptance bills of RMB344,040,000 (31 December 2016: RMB728,710,000).

19 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Advances from customers	149,842	76,251
Salary and welfare payables	27,728	30,300
Accrued expenses	12,934	22,727
Interest payables	2,336	1,211
Payables for purchase of equipment	10,555	9,896
Value added tax and other tax payables	1,005	323
Advance from third parties, interest free	23,000	23,000
Advances from third parties, interest bearing (Note a)	58,700	66,200
Advances from a related party, interest bearing (Note b)	100,000	—
Deposits	2,193	2,399
Amount due to a director (Note c)	2,172	—
Guarantee deposit repayable to a third party for subscription of ordinary shares of the Company	—	80,258
Payable to a third party (Note 33)	—	6,800
Others	5,976	6,682
Total	396,441	326,047

Note:

(a) As at 30 June 2017, restricted bank deposits of RMB60,000,000 (31 December 2016: RMB60,000,000) (Note 14) had been pledged as collateral for an interest bearing advance of the Group from a third party of RMB58,700,000 (31 December 2016: RMB58,700,000), which had an effective interest rate of 4.15% and repayable within one year. As at 31 December 2016, restricted bank deposits of RMB750,000 (Note 14) had been pledged as collateral for the guarantees of certain facilities granted to certain third-party customers of the Group by a bank, and borrowings of RMB7,500,000 under such facilities were utilised by the Group.

(b) As at 30 June 2017, advances from Jiangsu Ruihua Investment Holdings Group Ltd. (江蘇瑞華投資控股集團有限公司) ("Ruihua"), a non-controlling interest party of an indirectly owned subsidiary of the Company, amounting to RMB100,000,000 (31 December 2016: nil) were unsecured, interst bearing at 10% per annum and repayable within one year. Mr. Cao Kuanping, a director of the Company, provided a guarantee in favour of Ruihua regarding the advances to the Group from Ruihua.

(c) The balance due to a director as at the balance sheet date represented rental expenses due to Mr. Cao Kuanping by the Group of RMB1,568,000 and amount paid by Mr. Cao Kuanping on behalf of the Group of RMB604,000.

20 BORROWINGS

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Non-current		
Bond payables	7,231	7,358
Current		
Bank borrowings	304,085	305,084
	311,316	312,442

Movement in borrowings is analysed as below:

	Bank borrowings (a) RMB'000	Convertible bonds (b) RMB'000	Bond payables (c) RMB'000
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)	—	—
Difference between nominal interests and effective interests on bond payables	—	–	85
Valuation difference of Convertible bonds	—	3,327	—
Exchange differences	1,233	—	133
Closing amount as at 30 June 2016	355,228	70,938	6,940
Six months ended 30 June 2017			
Opening amount as at 1 January 2017	305,084	—	7,358
Proceeds from bank borrowings	95,000	—	—
Repayments of bank borrowings	(94,763)	—	—
Difference between nominal interests and effective interests on bond payables	—	—	(91)
Exchange differences	(1,236)	—	(36)
Closing amount as at 30 June 2017	304,085	—	7,231

20 BORROWINGS *(continued)*

(a) Bank borrowings

As at 30 June 2017, land use rights together with certain buildings and investment properties with an aggregated amount of RMB167,826,000 (31 December 2016: RMB165,278,000) (Note 7) had been pledged as collateral for the Group's bank borrowings of RMB97,600,000 (31 December 2016: RMB97,600,000).

As at 30 June 2017, restricted bank deposits of RMB56,353,000 (31 December 2016: RMB55,963,000) (Note 14) had been pledged as collateral for the Group's bank borrowings of US$7,600,000, equivalent to RMB51,485,000 (31 December 2016: US$7,600,000, equivalent to RMB52,721,000).

As at 30 June 2017, bank borrowings amounting to RMB100,000,000 (31 December 2016: RMB100,000,000) were guaranteed by Ruihua. Mr. Cao Kuanping, a director of the Company, provided a counter guarantee in favour of Ruihua for the bank borrowing guaranteed by Ruihua.

As at 30 June 2017, entrusted bank borrowing amounting to RMB50,000,000 (31 December 2016: RMB nil) was guaranteed by Nanjing Yangzi Technology Venture Capital Investment Fund LLP (南京揚子科技創業股權投資基金(有限合夥)), a third party, who subsequently became a non-controlling interest party of an indirectly owned subsidiary of the Company in July 2017.

As at 30 June 2017, bank borrowing amounting to RMB5,000,000 (31 December 2016: RMB30,000,000) was unsecured.

As at 31 December 2016, merchandise held for sale of RMB15,000,000 (Note 11) had been pledged as collateral for the Group's bank borrowings of RMB15,000,000.

As at 31 December 2016, bank borrowings amounting to RMB9,763,000 were guaranteed by a third party.

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Current		
– RMB	**252,600**	252,363
– US dollar	**51,485**	52,721
	304,085	305,084

As at 30 June 2017, bank borrowings with the carrying amounts of RMB51,485,000(31 December 2016: RMB52,721,000) were of floating rates and bank borrowings with the carrying amounts of RMB252,600,000 (31 December 2016: RMB252,363,000) were of fixed rates.

20 BORROWINGS *(continued)*

(a) Bank borrowings *(continued)*

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

	As at	
	30 June 2017	31 December 2016
Current	4.83%	4.48%

(b) Convertible bonds

On 14 August 2015, the Group issued convertible bonds of HK$ 80,000,000 (equivalent to RMB 65,984,000) at the interest rate of 4.0%. The bonds would mature one year from issue date at their nominal value of HKD 80,000,000 or could be converted into shares at the holder's option at the maturity date at the rate of one share per HKD 1.19. The Group designated the instrument as financial liabilities at fair value through profit or loss as a whole.

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

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

On 14 July 2016, the Group early redeemed all of the outstanding convertible bond at the aggregate amount of the outstanding principal of HK$80,000,000 in accordance with the terms of the convertible bonds. The fair value of the convertible bonds as at 30 June 2016 was determined by using the subsequent redemption price together with accumulated interests of approximately HK$ 83,000,000 (equivalent to RMB70,938,000).

(c) Bond payables

On 22 January 2015, the Company entered into a bond placing agreement with the placing agent, pursuant to which the placing agent has agreed to endeavour to procure placees who were not and whose ultimate beneficial owner(s), if applicable, were 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 would be placed in denomination of HK$ 2,500,000, at the interest rate of 6.0% per annum, and would mature 8 years from issue date.

As at 30 June 2017, bonds with amount of HK$ 10,000,000 were issued and outstanding and were repayable in more than 2 years.

21 DEFERRED GOVERNMENT GRANTS

Deferred government grants comprise government subsidy of RMB 2,910,000 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 2016, 30 June 2016, 1 January 2017 and 30 June 2017	53,560

On 20 September 2010, Yangzhou Huiyin entered into a co-operation agreement with Huainan Xingfushu Electrical Appliances Company Limited ("Xingfushu") and an independent third party Mr. Jin ("Mr. Jin"), 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, and Xingfushu ceased its business thereafter.

The contingent consideration arrangement requires Yangzhou Huiyin to pay Mr. Jin 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 ceiling of RMB 14 million) times 6.5 minus RMB 19.5 million (the "Consideration"), if the Net Operating Profit of Huainan Four Seas for the First Operating Year exceeds RMB 5 million; meanwhile if the Net Operating Profit for the third year after the commencement of business of Huainan Four Seas exceeds RMB 13 million and the aggregate Net Operating Profits for the first three years after the commencement of business of Huainan Four Seas exceeds RMB 30 million, Yangzhou Huiyin shall pay Mr. Jin a bonus consideration of RMB 12 million (the "Bonus Consideration"). Accordingly, the maximum amount of the contingent consideration payable to the Mr. Jin is RMB 83.5 million. The Consideration and the Bonus Consideration will be paid in cash or, if required by Mr. Jin, by way of issuance and allotment of new ordinary shares of the Company (the "Shares"), to Mr. Jin. 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 2017, no fair value changes were recognised (six months ended 30 June 2016: nil) in the consolidated income statement for the contingent consideration arrangement. As at the balance sheet date, the fair values of the contingent consideration approximate their carry amount.

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

23 REVENUE

Turnover of the Group comprises revenues recognised as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Sales of goods		
– Traditional business	349,634	306,600
including:		
Retail	143,104	150,770
Bulk distribution	206,530	155,830
– Online distribution channels	325,926	318,430
	675,560	625,030
Rendering of services		
– Maintenance and installation service	6,302	5,035
Total revenue	681,862	630,065

24 OTHER INCOME

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Income from suppliers on promotion activities	5,474	1,566
Rental income	1,301	1,680
Membership fee income	4,241	1,103
Government subsidies	6,584	100
	17,600	4,449

25 OTHER LOSSES - NET

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Gain arose from acquisition of a subsidiary (Note 33)	–	3,301
Losses arose from revaluation of investment in and loan to a joint venture (Note 33)	–	(3,633)
Losses on disposal of property, plant and equipment, net	(6)	(46)
Losses on disposal of intangible assets, net	(43)	–
	(49)	(378)

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	
	2017 RMB'000	2016 RMB'000
Cost of merchandise before deducting supplier rebates	676,619	823,087
Supplier rebates	(109,357)	(221,890)
Taxes and levies on main operations	941	1,088
Employee benefit expenses - including the directors' emoluments	48,196	37,252
Share Option Scheme expenses	—	44,832
Service charges	1,187	709
Operating lease expenses in respect of buildings and warehouses	17,992	17,186
Promotion and advertising expenses	12,344	10,947
Amortisation of land use rights (Note 7)	555	555
Depreciation of property, plant and equipment (Note 7)	9,279	11,166
Depreciation of investment properties (Note 7)	85	85
Amortisation of intangible assets (Note 8)	618	698
Utilities and telephone expenses	4,171	3,951
Transportation expenses	3,764	4,120
Entertainment expenses	3,805	2,243
Travelling expenses	2,362	3,052
Office expenses	1,277	2,704
Accrual/(reversal) of provision for obsolescence on inventories (Note 11)	1,231	(4,968)
Accrual/(reversal) of provision for impairment on trade receivables (Note 12)	1,260	(1,097)
Accrual of provision for impairment on receivable from a third party (Note 13)	—	2,910
Reversal of provision for advance payments to suppliers (Note 13)	(40,743)	—
Accrual of provision for prepayments and supplier rebates receivable (Note 13)	—	87,112
Property tax and other taxes	1,616	1,131
Auditor's remuneration	1,763	1,500
Bank charges	2,657	2,712
Consulting expenses	625	95
Others	9,229	8,876
Total of cost of sales, selling and marketing expenses and administrative expenses	651,476	840,056

27 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Finance income		
– Interest income on bank deposits	4,168	5,834
– Interest income from borrowing to a joint venture	—	1,467
	4,168	7,301
Finance costs		
– Interest expenses on bank borrowings	(7,812)	(10,128)
– Interest expenses on discounting of bills receivable	(6,772)	(14,051)
– Interest expenses on bonds payable	(528)	(339)
– Net foreign exchange losses on monetary receivables and payables	(6,615)	—
– Net foreign exchange losses on cash and cash equivalents, bank borrowings and bond payables	1,369	(185)
– Fair value losses on convertible bonds	—	(3,327)
	(20,358)	(28,030)
Finance costs - net	(16,190)	(20,729)

28 INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
PRC enterprise and withholding income taxes		
– Current income tax	11,948	(110,756)
– Deferred income tax (Note 10)	2,138	138,829
	14,086	28,073

(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 2017 (six months ended 30 June 2016: 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 2017 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 (six months ended 30 June 2016: nil).

29 EARNINGS/(LOSS)PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2017	2016
Profit/(loss) attributable to equity holders of the Company (RMB'000)	22,436	(244,071)
Weighted average number of ordinary shares in issue (thousand)	1,718,860	1,456,860
Basic earnings/(loss) per share (RMB cents)	1.31	(16.75)

(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	
	2017	2016
Profit/(loss) attributable to equity holders of the Company (RMB'000)	22,436	(244,071)
Weighted average number of ordinary shares in issue (thousand)	1,718,860	1,456,860
Adjustment for:		
– Exercise of the conversion right of the convertible bonds	–	–
– Settlement in ordinary shares for the contingent consideration arising from business combination (thousand)	90,723	–
– Exercise of share options granted under share option scheme (thousand)	231,680	–
Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousand)	2,041,263	1,456,860
Diluted earnings/(loss) per share (RMB cents)	1.10	(16.75)

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.

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 2017 (six months ended 30 June 2016: nil).

31 COMMITMENTS

(a) 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 2017 RMB'000	31 December 2016 RMB'000
Not later than 1 year	40,850	41,333
Later than 1 year and not later than 5 years	131,413	136,366
Later than 5 years	75,941	82,797
	248,204	260,496

(b) CAPITAL COMMITMENTS

Capital contribution contracted for an joint venture and an associate at the end of the period but not yet provided is as follows:

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Payable within 5 years	3,300	—
Payable over 5 years	95,000	—
	98,300	—

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 2017 RMB'000	31 December 2016 RMB'000
Not later than 1 year	754	2,454
Later than 1 year and not later than 5 years	1,111	1,500
Later than 5 years	346	174
	2,211	4,128

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 BUSINESS COMBINATION ARISING FROM ACQUISITION OF ADDITIONAL EQUITY INTEREST IN A JOINT VENTURE - SIX MONTHS ENDED 30 JUNE 2016

In January 2014, Yangzhou Huiyin and its wholly-owned subsidiary, Yangzhou Huiyin Real Estate Co., Ltd. ("Huiyin Real Estate") entered into a co-operation agreement (the "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"). Huiyin Real Estate held the a land parcel acquired for RMB245,000,000, and Weiying would bear and contribute from time to time all the development and construction costs for the Project following the Co-operation Agreement. The estimated costs of development and construction was approximately RMB250,000,000. Yangzhou Huiyin and Weiying would be entitled to share 52% and 48% of the revenue of the Project respectively.

Under the Co-operation Agreement, although Weiying would contribute cash to the Huiyin Real Estate as working capitals rather than paid-in capital, the legal and financial operations as well as other key relevant activities of Huiyin Real Estate would be jointly controlled by Yangzhou Huiyin and Weiying. 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.

Weiying had made a prepayment of contribution into Huiyin Real Estate amounted to RMB10,000,000 in 2013, hence the post-tax loss incurred before the date of loss of control related to the Project 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 RMB 1,192,000 were derecognised at the date of loss of control.

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

33 BUSINESS COMBINATION ARISING FROM ACQUISITION OF ADDITIONAL EQUITY INTEREST IN A JOINT VENTURE - SIX MONTHS ENDED 30 JUNE 2016 *(continued)*

As at 27 January 2016, investment in a joint venture included capital contributed of RMB 50,000,000and share of loss of RMB45,452,000, whereas borrowing to a joint venture included principal amount of RMB218,586,000 and interest receivable of RMB56,330,000. The borrowing carried an interest calculated at compound rate of 6.6% per annum which would be settled together with the principal amount upon the completion of the Project.

Name of entity	Place of business/ country of incorporation	% of ownership interest (note)	Measurement method
Yangzhou Huiyin Real Estate Co., Ltd.	Yangzhou Jiangsu, PRC	93.14	Equity

Note:

The % of ownership interest presented was the investment amount percentage of the Group in the joint venture. The legal ownership structure of Huiyin Real Estate was changed and Yangzhou Huiyin continued to be officially registered as the sole owner. The investment amount percentages of the Group and Weiying were 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 was the aggregate of the consideration for the Land Parcel and related expenses totalling RMB244,558,000, whereas the investment amount of Weiying was the costs and expenses related to the Project paid by Weiying totalling RMB18,000,000. The investment amount percentage presented was for reference only. The Group accounted 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 took 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.

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

Six months ended 30 June 2016	Investment in a joint venture RMB'000	Loan to a joint venture RMB'000	Total RMB'000
At 1 January 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

Summarised financial information for the joint venture as at 27 January 2016, the combination date

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

33 BUSINESS COMBINATION ARISING FROM ACQUISITION OF ADDITIONAL EQUITY INTEREST IN A JOINT VENTURE - SIX MONTHS ENDED 30 JUNE 2016 *(continued)*

Summarised financial information for the joint venture as at 27 January 2016, the combination date

(a) Summarised balance sheet

	As at 27 January 2016, the combination date RMB'000
Current	
Cash and cash equivalents	16,789
Inventories	297,985
Other current assets	2,046
Total current assets	316,820
Liabilities	(43,483)
Non-current	
Assets	17,530
Net assets	290,867

(b) Summarised statement of comprehensive income

	From 1 January 2016 to 27 January 2016, the combination date RMB'000
Revenue	
Administrative expenses	(95)
Finance income	44
Finance costs	(1,468)
Loss before income tax	(1,519)
Income tax credit	380
Loss for the period	(1,139)
Other comprehensive income or loss	—
Total comprehensive loss for the period	(1,139)
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.

33 BUSINESS COMBINATION ARISING FROM ACQUISITION OF ADDITIONAL EQUITY INTEREST IN A JOINT VENTURE - SIX MONTHS ENDED 30 JUNE 2016 *(continued)*

Reconciliation of summarised financial information

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

	From 1 January 2016 to 27 January 2016, the combination date RMB'000
Opening net assets	277,338
Contribution from Yangzhou Huiyin and Weiying	14,668
Loss for the period	(1,139)
Closing net assets	290,867
Less: Contribution from Weiying	(18,000)
Add: Accumulated loss derived from expenses related to the Project born by Weiying	4,369
Excess of consideration paid to non-controlling interests born by Weiying	2,228
Carrying amount	279,464

33 BUSINESS COMBINATION ARISING FROM ACQUISITION OF ADDITIONAL EQUITY INTEREST IN A JOINT VENTURE - SIX MONTHS ENDED 30 JUNE 2016 *(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

As at 30 June 2017, all capital contribution and advances from Weiying had been fully repaid (31 December 2016: RMB6,800,000) (Note 19).

In October 2016, Yangzhou Huiyin and Huiyin Real Estate entered into an equity transfer agreement with Guangdong Aoyuan Commercial Property Group Company Limited (廣東奧園商業地產集團有限公司) ("Aoyuan"), an independent third party, pursuant to which Yangzhou Huiyin agreed to sell and transfer and Aoyuan agreed to purchase and receive all the equity interest of Huiyin Real Estate at a consideration of RMB207,143,000. Upon completion of the disposal, Huiyin Real Estate ceased to be a subsidiary of the Group.

34 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Disposal of interest in a subsidiary without loss of control

During the six months ended 30 June 2016, the Group disposed of 10% of interest in Jiangsu Huiyin E-commerce Co., Ltd. (江蘇滙銀電子商務有限公司) ("Jiangsu Huiyin E-commerce"), an indirectly owned subsidiary of the Company, at a consideration of RMB60,000,000. The carrying amount of the non-controlling interests in Jiangsu Huiyin E-commerce on the date of disposal was RMB7,560,000. The Group recognised an increase in non-controlling interests of RMB7,560,000 and an increase in equity attributable to owners of the Company of RMB52,440,000 which represented the excess of consideration received.

(b) Dividend paid by a subsidiary to non-controlling interests and return of capital to non-controlling interests upon liquidation of a subsidiary

During the six months ended 30 June 2017, due to the restructuring of the Group's business, the Group gave up some traditional household distribution business and Changzhou Keyi Air-conditioner Sales Co., Ltd. (常州可意空調銷售有限公司) ("Changzhou Keyi"), an indirectly owned subsidiary of the Company, went into liquidation. A cash dividend of RMB1,050,000 together with a return of capital of RMB1,244,000 was paid to non-controlling interests. The Group recognised a decrease in non-controlling interests of RMB2,088,000 and a decrease in equity attributable to owners of the Company of RMB206,000 which represented the excess of capital returned to non-controlling interests.

35 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
Ruihua	A non-controlling interest party of an indirect held subsidiary of the Company
Haihuitong	An associate of the Company
Qingdao Dadu International Trade Co., Ltd. ("Dadu")	A non-controlling interest party of an indirect owned subsidiary of the Company

(b) Transactions with related parties

Other than the transactions with Ruihua and Mr. Cao Kuanping as disclosed in Note 19 and Note 20, the following transactions were undertaken by the Group with related parties during the period:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
– Sales to related parties		
Haihuitong	38,426	—
Dadu	636	—
	39,062	—
– Rental expenses to a related party		
Mr. Cao Kuanping	1,872	1,867
– Directors' emoluments		
Salaries, bonuses and other welfares	3,465	4,856

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.

35 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Salaries and other allowances	1,784	1,794
Social security costs	120	151
Option Scheme expenses	–	1,740
Other benefits	1,561	1,171
	3,465	4,856

(d) Balances with related parties

Other than the balances with Ruihua and Mr. Cao Kuanping as disclosed in Note 19, the Group had the following balances with related parties:

	As at 30 June 2017 RMB'000	31 December 2016 RMB'000
Trade balances due from related parties		
Receivables for sales of goods		
– Haihuitong	33,845	–
– Dadu	636	–
	34,481	–
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
	–	283

36 CONTINGENCIES

As at 30 June 2017, the Group had been defending several legal actions brought by third parties in the PRC, with the total claim amount of RMB8,300,000 (31 December 2016: 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.

37 SUBSEQUENT EVENTS

On 4 August 2017, an aggregate of 339,100,000 subscription shares was successfully issued and allotted to Noble Trade International Holdings Limited at a subscription price of HKD0.81 per share. Net proceeds from the subscription amounted to approximately HKD274,371,000.