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

INTERIM REPORT 2019

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yuan Li *(Chairman)*
Mr. Xin Kexia *(Chief Executive Officer)*
Mr. Xu Xinying
Ms. Liu Simei

NON-EXECUTIVE DIRECTOR

Ms. Xu Honghong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Jinyong
Mr. Chen Rui
Mr. Fung Tak Choi

COMPANY SECRETARY

Ms. Ngai Kit Fong, FCIS, FCS(PE)

AUDIT COMMITTEE

Mr. Zhao Jinyong *(Chairman)*
Mr. Chen Rui
Mr. Fung Tak Choi

REMUNERATION COMMITTEE

Mr. Zhao Jinyong *(Chairman)*
Mr. Yuan Li
Mr. Chen Rui

NOMINATION COMMITTEE

Mr. Chen Rui *(Chairman)*
Mr. Zhao Jinyong
Mr. Fung Tak Choi

INDEPENDENT INVESTIGATION COMMITTEE

Mr. Zhao Jinyong *(Chairman)*
Mr. Chen Rui
Mr. Fung Tak Choi

AUTHORISED REPRESENTATIVES

Mr. Yuan Li
Ms. Ngai Kit Fong

REGISTERED OFFICE

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Cricket Square
P.O. Box 2804
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Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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No. 440 Wenchang Xi Road,
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Jiangsu Province
PRC

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

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Communications (Yangzhou Branch)
No. 2 Wenhe North Road
Yangzhou City
Jiangsu Province
PRC

Agricultural Bank of China (Runyang Sub-branch)
No. 47 Hanjiang Road
Yangzhou City
Jiangsu Province
PRC

China Merchant Bank (Yangzhou Branch)
Haiguan Building, West Wing
No. 12 Wenchang West Road
Yangzhou City
Jiangsu Province
PRC

China Citic Bank (Yangzhou Branch)
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Yangzhou City
Jiangsu Province
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

According to the United Nations World Economic Situation and Prospects mid-2019 report, against a backdrop of unresolved trade tensions, the high international policy uncertainty and softening business confidence, the global economy is experiencing a broad-based growth slowdown. Following an expansion of 3.0 per cent in 2018, world gross product growth is now projected to moderate to 2.7 per cent in 2019 and 2.9 per cent in 2020, reflecting a downward revision from the forecasts released. The report identifies several downside risks that could trigger a sharper or more prolonged growth slowdown in the world economy, potentially inflicting significant damage on development progress. The projected growth of world trade, world investment as well as world GDP has been revised downwards by many institutions such as IMF, the World Bank and OECD.

From the perspective of the economic condition of China, GDP of the first half of 2019 increased by 6.3% year-on-year, while total GDP of China reached RMB45.1 trillion. The growth reflects the economic resilience of China remains strong.

For consumption in China, the total retail sales of social consumer goods increased by 8.4% year-on-year, which was higher than the GDP of 6.3%. It indicated that the contribution of consumption to the economic development increases significantly.

From the perspective of the environment of the home appliance industry, in the first half of 2019, the accumulated retail sales of the domestic home appliance market amounted to RMB412.5 billion, representing a year-on-year growth of -2.1%. Due to the change in the macroeconomic environment, the two factors driving the rapid development of the home appliance industry, namely real estate and population, tend to be weakened. Since 2018, there has been a decline in the home appliance market scale. Meanwhile, the stabilized economic environment and economic indicators, the support to home appliance consumption from home appliance subsidy policy 2.0, as well as the development of consumption upgrade and the expansion of consumption demand bring about new opportunities and growth, and hence are beneficial to the development of the home appliance industry.

BUSINESS REVIEW

In addition to streamlining of the team, business and internal control since the second half of 2018, the Group continued to make adjustments and implanted reforms during the reporting period which primarily covered areas as follows:

1. IMPROVE, SUPERVISE AND IMPLEMENT INTERNAL CONTROL SYSTEM

The Group prepared a set of detailed and practical manuals for internal control on the basis of actual situation, which were finalized on 26 February 2019 and published on 1 March 2019. On 10 May 2019, an internal control advisor, being an independent third party, constantly conducted a review and issued a report in respect of finalized rectification. At the same time, an independent third party was engaged to provide external trainings in relation to awareness, importance and procedure of internal control to employees belonging to middle and senior levels or above. In the process of surveillance and implementation, internal trainings for employees were reinforced in relation to the implementation of internal control, and KPI appraisal for such employees were included to strengthen the effectiveness of internal control implementation.

MANAGEMENT DISCUSSION AND ANALYSIS

2. CONTINUE TO REDUCE LOSS AND ADJUST PRODUCT LINES

During the reporting period, the Group utilized the big data technology to thoroughly identify user requirements, closely followed market trends and introduced differentiated products, virally popular products, uniquely creative products and other selected products to further enrich product SKU and thus increase inventory turnover rates. The advocation of a strategic guiding principle of "old business, new method, rooted in Jiangsu and Anhui, with extension to the whole nation" points out that the Group capitalized on policy benefits and opportunities for market adjustment: enhanced adjustments to and trainings of the Company's sales system, and applied diversified new technologies and new methods to accomplish goals of continuously reducing loss and quickly turning loss into profit.

For the six months ended 30 June 2019, the Group recorded a loss of approximately RMB32.3 million, while a loss of approximately RMB91.7 million was recorded for the six months ended 30 June 2018, reduced by RMB59.4 million or 64.8%. Gross profit margin was 10.5% and 6.4% for the six months ended 30 June 2019 and 2018, respectively, representing an increase of 4.1%.

3. STRENGTHEN ALLIANCE ACROSS DIFFERENT INDUSTRIES, ENLARGE DISTRIBUTION TO OBTAIN CHANNELS AND INCREASE USER STICKINESS

During the reporting period, the Group intensified its efforts in promoting the development of commodity exchange platform, service rating platform and Internet of Things ("IoT") service platform. On the commodity exchange platform, the Group achieved online integration in areas such as merchandise, pricing, services, memberships, marketing promotions, etc., which facilitated the ordering process for customers. On the service rating platform, the Group created a visually rich online customer service platform that enables users to provide ratings and share experiences on areas such as physical stores, logistics, after-sales repair and maintenance, etc., which better satisfied the needs of customers. On the IoT service platform, the Group further extended the merchandise operations and service provision from stores to homes by use of upgraded technologies and service capabilities which increased user interactions as well as user stickiness.

The Group optimized the online mall of Huiyin Lehu, set up WeChat apps and official account of Huiyin Lehu, undertook generation operation and enforced membership management to improve user stickiness and the rate of repeated purchase by old customers. Taking the maintenance scheme for old users initiated by the Group as an example, the Group sorted out the information of old users over more than two decades, and arranged the customer service team to send greetings to old users via SMS and by phone, and in the meantime, launched the campaign to seek "old invoices" on the official account of the Company, so as to urge for stickiness among old users through rounds of activities for recalling the past, as shown in the picture above.

4. OPTIMIZATION OF CUSTOMER SERVICE: AFTER-SALES SERVICE AND LOGISTICS MANAGEMENT

(I) After-sales service

As shown from the images above:

1. In terms of after-sales service personnel, all the service personnel of the Group are certified, and they have all passed the examination of the provincial household electrical appliances association and obtained a certificate in the form of QR code;

2. The Group's after-sales services cover all categories and the full range of products, and all kinds of request can be handled by making a phone call to the service hotline;

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

(II) Logistics management

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

5. MANAGEMENT INFORMATION AND OFFICE SYSTEM INTEGRATION AND UPGRADE

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

6. EXCELLENT HUMAN RESOURCES

As of the date of this report, the Group continued to sort out the functions, job requirements and KPIs of human resources. As at 30 June 2019, the number of employees of the Group was 590. To enhance employees' competency and improve their comprehensive skills, the Group organised more than 20 trainings with different themes. The training courses, covering induction training, product knowledge, sales skills, leadership skills, and corporate culture, fully catered to the needs of different levels of employees and more than 1,000 employees have participated in such trainings.

7. BUILDING CORPORATE CULTURE

During the reporting period, under the guidance of a periodic "loss reduction" strategy and online and offline integration, the Group enhanced its corporate cultural system. After the enormous losses suffered by the Group in 2016 and 2017, in the process of replacement between the original and incumbent board members at the end of 2017, as well as the original and incumbent management members in the first half of 2018, there were many confusions arise among those employees dedicated to the Group. On one hand, the Group worked on plenty of sorting tasks regarding selection of team members, whilst building corporate culture, vision and values, restoration of code of conduct for employees' behaviours, and organized several trainings and outward bound activities in conformity with the Group's vision and values and code of conduct to increase solidarity and cohesion among the majority of employees toward the Group, as well as the execution capabilities of respective job positions.

In a nutshell, with the arrival of the 2.0 era for household appliances subsidy, the Group will concentrate on the internal corporate governance, and seize the breaking point of the replacement cycle of the national policy of household appliances going to countryside in the household appliances industry to focus its efforts and resources on the principal business of household appliances. The Group will more effectively apply a diversified marketing and promotion strategy to quicken inventory turnover, boost market share and turnover, and realize the transitional development of the Group by actively broadening its thinking, coupling with its own structure and market demand.

FINANCIAL REVIEW

REVENUE

For the six months ended 30 June 2019, the Group's revenue was approximately RMB229.0 million, representing a decrease of 59.7% from approximately RMB568.1 million for the six months ended 30 June 2018.

Turnover of the Group comprises revenues by operations as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Types of goods and services		
Sales of goods		
– Traditional business	**215,173**	469,742
– New retail business	**—**	79,229
	215,173	548,971
Rendering of services		
– Maintenance and installation service	**13,830**	19,100
Total revenue	**229,003**	568,071

COST OF SALES

For the six months ended 30 June 2019, the cost of sales was approximately RMB205.0 million, decreased by 61.5% from that of approximately RMB531.8 million for the six months ended 30 June 2018,which was due to the decrease of sales volume.

GROSS PROFIT

For the six months ended 30 June 2019, the gross profit was approximately RMB24.0 million, decreased by 33.9% from that of approximately RMB36.3 million for the six months ended 30 June 2018.

OTHER INCOME

For the six months ended 30 June 2019, other income recorded by the Group amounted to approximately RMB5.6 million, representing a decrease of 37.4% in comparison to approximately RMB9.0 million for the six months ended 30 June 2018. This was mainly due to the decrease in sales volume, which led to the reduction of other income from the related supporting services.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER GAINS

For the six months ended 30 June 2019, the Group recorded a loss of approximately RMB2.5 million, in comparison to losses of approximately RMB0.6 million for the six months ended 30 June 2018.

SELLING AND MARKETING EXPENSES

For the six months ended 30 June 2019, the Group's total selling and marketing expenses amounted to approximately RMB32.0 million, representing an decrease by 57.7% from approximately RMB75.7 million for the six months ended 30 June 2018, which was mainly due to reduction of relevant expenses after the disposal of Nanjing Lehu.

ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2019, the Group's total administrative expenses amounted to approximately RMB13.8 million, decreased by 75.7% from approximately RMB56.7 million for the six months ended 30 June 2018, which was mainly due to reduction of relevant expenses after disposal of Nanjing Lehu.

OPERATING LOSS

For the six months ended 30 June 2019, the operating loss amounted to approximately RMB18.7 million, decreased by 78.7% from approximately RMB87.7 million for the six months ended 30 June 2018.

FINANCE COSTS – NET

For the six months ended 30 June 2019, the net financial cost of the Group amounted to approximately RMB13.6 million, representing an increase by 382.3% in comparison to approximately RMB2.8 million for the six months ended 30 June 2018. Significant increase in interest was mainly due to a structural adjustment commenced in the second half of 2018, and the financing for the corresponding period of last year included interest-free bank financing notes of RMB267 million, while the balance of loan from third parties for the corresponding period of current year amounted to approximately RMB395 million, payable for 5% to 6.5% interest.

LOSS BEFORE INCOME TAX

For the six months ended 30 June 2019, the loss before income tax amounted to approximately RMB32.2 million, while it was approximately RMB91.4 million for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX EXPENSE

For the six months ended 30 June 2019, the income tax credit of the Group amounted to approximately RMB0.1 million, while it was approximately RMB0.3 million for the six months ended 30 June 2018.

LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the six months ended 30 June 2019 was approximately RMB30.3 million, while there was loss attributable to equity holders of approximately RMB87.2 million for the six months ended 30 June 2018.

CASH AND CASH EQUIVALENTS

As at 30 June 2019, the Company's cash and cash equivalents were approximately RMB54.2 million, representing an increase of 12.8% from approximately RMB48.1 million as at 31 December 2018.

INVENTORIES

As at 30 June 2019, the Group's inventories amounted to approximately RMB128.5 million, representing a decrease of 18.4% from RMB157.5 million as at 31 December 2018.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 30 June 2019, prepayments, deposits and other receivables of the Group amounted to approximately RMB103.2 million, representing an increase of 1.8% from approximately RMB101.3 million as at 31 December 2018.

TRADE AND BILLS RECEIVABLES

As at 30 June 2019, trade and bills receivables of the Group amounted to approximately RMB20.9 million, representing a decrease of 12.9% from approximately RMB24.0 million as at 31 December 2018, which was mainly due to the disposal of Nanjing Lehu.

TRADE AND BILLS PAYABLES

As at 30 June 2019, trade and bills payables of the Group amounted to approximately RMB139.7 million, representing a decrease of 13.6% from approximately RMB161.7 million as at 31 December 2018.

GEARING RATIO AND THE BASIS OF CALCULATION

As at 30 June 2019, gearing ratio of the Group was 132.7 %, increased from that of 128.4% as at 31 December 2018. The gearing ratio is equal to total liabilities divided by the sum of total equity and total liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

CASH FLOWS

For the six months ended 30 June 2019, the net cash outflow from the Group's operating activities was approximately RMB39.2 million, while it was approximately RMB306.8 million for the six months ended 30 June 2018. Operating cash flow for the period remains negative, representing a decrease of approximately 87.2% over the corresponding period of last year, mainly because the Company bore and repaid note payables of approximately RMB267 million in the corresponding period of last year.

For the six months ended 30 June 2019, the net cash inflow from financing activities was approximately RMB44.6 million, compared with RMB364.1 million for the six months ended 30 June 2018.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2019, the Group's working capital, capital expenditure and investment cash were funded from cash on hand, advance from third parties and related parties. As at 30 June 2019. The interest-bearing borrowings of the Group amounted to RMB15.8 million, decreased from RMB45.6 million as at 31 December 2018 (note 16).

As at 30 June 2019, the interest-bearing advance from third parties and related parties, and equity investor of an associate of the Group amounted to RMB394.7 million, increased from RMB340.8 million as at 31 December 2018 (note 15).

PLEDGING OF ASSETS

As at 30 June 2019, certain land use rights, buildings and investment properties with a total net book value of RMB180.2 million had been pledged.

FOREIGN CURRENCIES AND TREASURY POLICY

All the income and the majority of expenses of the Group were denominated in Renminbi. During the six months ended 30 June 2019, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risk. The Group does not have a foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting appropriate foreign currency hedging policy in the future.

LITIGATION AND CONTINGENCIES

On 27 March 2019, the Group signed a compromise agreement amongst Jiangsu Ruihua Investment Holding Group Co., Ltd. ("Ruihua") and 蘇州瑞華投資合夥企業(有限合夥) ("瑞華合夥") (collectively referred as "Ruihua Enterprises") for settlement of the matters regarding (a) the financial liabilities arising from the derivative financial instruments; and (b) the Group's capital commitment to purchase 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. from 瑞華合夥 as set out in Note 25.

Pursuant to the compromise agreement, the settlement would be made as follows:

Ruihua Enterprises withdrew the rights to sue the Group for settlement of the liabilities arising from the matters as described in (a) and (b) above to the extent of approximately RMB122 million (including interest and default penalty) upon the date of signing the compromise agreement amongst all parties to the agreement on the ground that:

(I) The Group has to pay Ruihua Enterprises a sum of RMB12,000,000 divided by 3 instalments;

(II) In case Ruihua Enterprises unable to recover RMB72,000,000 in full from the former Chairman, Mr. Cao Kuanping on or before 31 December 2019 arising from the matters as mentioned in (a) and (b) above, the Group has to pay the remaining shortage balance to Ruihua on or before 30 June 2020.

Uncertainties existed in the litigation of Mr. Cao Kuanping made by Ruihua Enterprises might incur contingent liabilities of RMB49,777,800, however such contingent liabilities were pledged by 130 million shares provided by Mr. Cao Kuanping and secured by a real estate asset of the Group with a value of RMB37.0 million.

INTERIM DIVIDEND

The Board of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2019.

EMPLOYMENT AND REMUNERATION POLICY

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

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

HUMAN RESOURCES

As at 30 June 2019, the Group had 590 employees, decreased by 12.6% from 675 employees as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

The Company's business objectives will focus on home appliance business in the future. The Company works on the home appliance business sector by centralizing human, funds, materials and technology, whilst increasing its market share in areas from third-tier to emerging cities in East China to become a reputable regional home appliance chain enterprise. We strategically take an incremental approach to start with third-tier cities and gradually penetrate into emerging cities in a progressive manner in order to achieve full coverage within the region ultimately.

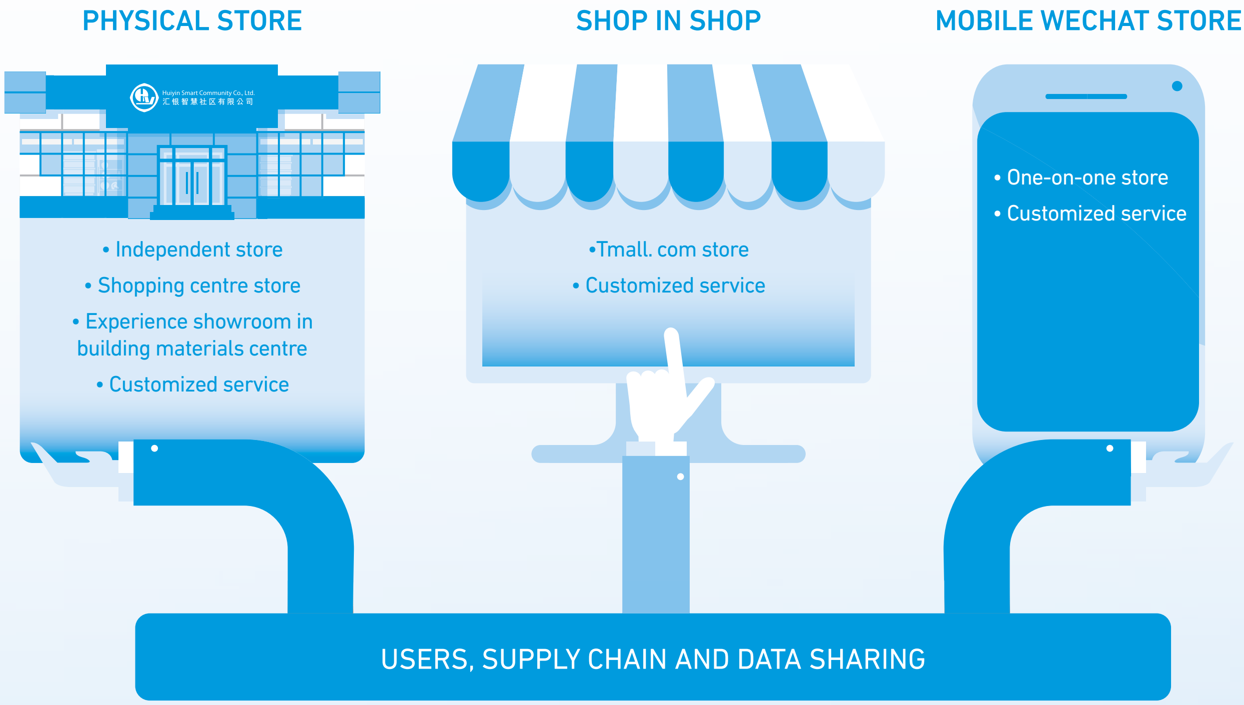
For the time being, the Company's future 5-year plan is to increase sales and market share, enhance the asset scale and raise profitability leveraged on the household appliances subsidy policy for the national 2.0 era from 2019 to 2021. At the same time, the Company will gradually penetrate from third-tier to sixth-tier cities in Jiangsu and Anhui which are within the scope that the Company is familiar with. From 2022 to 2025, under the premise of paving the way for asset quality and consolidating business foundation, the Company will speed up the market penetration in Jiangsu and Anhui and further expand into the surrounding cities.

I. From 2019 to 2021, the Company will increase sales and market share, enhance the asset scale and raise profitability leveraged on the household appliances subsidy policy for the national 2.0 era. At the same time, the Company will gradually penetrate from third-tier to emerging cities in Jiangsu and Anhui which are within the scope that the Company is familiar with.

II. From 2022 to 2025, under the premise of paving the way for asset quality and consolidating business foundation, the Company will speed up the market penetration in Jiangsu and Anhui and further expand into the surrounding cities. With regard to product mix, the Company will increase the proportion of smart home appliances such that smart home appliances, small home appliances and low energy green home appliances will account for more than 90% of the home appliance business in 2025 to increase the overall gross profit margin of the Company's products. Capitalizing on the development trend of the 5G era and the IoT, online and offline integration can be achieved. Multi-store, all-category and multi-channel modes, being selected new retail modes of home appliances for mobile WeChat stores, independent stores+shopping centre stores+experience showrooms are established. The Company strives to become a reputable home appliance chain enterprise in Jiangsu, Anhui and other areas with higher brand reputation and prestige.

MANAGEMENT DISCUSSION AND ANALYSIS

Based on users, supply chain and data sharing, the Group achieved online and offline integration. Multi-store, all-category and multi-channel modes, being selected new retail modes of home appliances for mobile WeChat stores, independent stores+ shopping centre stores+experience showrooms are established, which are illustrated in the diagram below:



In summary, it is expected that the PRC will remain in the process of urbanization at least in the following 30 years, hence there are still tremendous market potential and opportunities in third-tier to emerging cities. On one hand, in the future the Group will seize the opportunities arise from the national home appliances subsidy policy and increase the proportion of smart home appliances and green home appliances, and on the other hand, the Group will capitalize on the trend of consumption upgrading and technological development and seek to transform from a traditional home appliance retail business to a new retail business by integration of O2O, 5G, IoT and others into models or products. The Group will also unleash its advantages of branding and offline channels in third-tier and emerging cities which have been accumulated over two decades. In addition, the Group will, in due course, search for the next opportunity from a high-growth sector which is in line with the national industrial policy to achieve remarkable breakthrough for the Group.

OTHER INFORMATION

SHARE OPTION SCHEME

On 5 March 2010, the Company 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.

During the six months ended 30 June 2019, no share options have been granted or exercised, neither are share options cancelled or lapsed under the Share Option Scheme.

Movement of the share options under the Share Option Scheme during the period are set out in the below table.

	Number of share options				
Name	As at 1 January 2019	Granted during the reporting period	Exercised during the reporting period	Forfeited during the reporting period	As at 30 June 2019
Employees	32,880,000	—	—	—	32,880,000
	32,880,000	—	—	—	32,880,000

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

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

The subscription price payable upon the exercise of the 100,000,000 share options granted on 14 May 2015 is fixed at HK$1.69.

The 145,680,000 share options granted on 22 December 2015 shall be 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.

DIRECTORS' RIGHT TO ACQUIRE SHARE OR DEBT SECURITIES

Other than as disclosed in the paragraph headed "Share Option Scheme" in this interim report, at no time during the reporting period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

During the reporting period, there was no transaction, agreement or contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director or his connected entity had, whether directly or indirectly, a material interest.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, 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
Yuan Li (Note)	The Company	Interest of controlled corporation	569,100,000 Shares (L)	22.42%

(L) denotes long position.

Note:

The 569,100,000 shares were held by Noble Trade International Holdings Limited* (聖行國際集團有限公司)(formerly聖商國際集團有限公司)("Noble Trade International") as beneficial owner. Noble Trade International was 100% wholly-owned by Mogen Ltd. ("Mogen"). Mogen was 100% wholly-owned by Chongqing Saint Information Technology Co., Ltd. which was owned by Mr. Yuan Li, an Executive Director as to 40.21%.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the interests or short positions of those persons (other than Directors or chief executives whose interests are disclosed above) in the ordinary shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as 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
Mogen Ltd. (Note 1)	The Company	Interest of controlled corporation	569,100,000	22.42%
Noble Trade International Holdings Limited* (聖行國際集團有限公司) (Note 1)	The Company	Beneficial owner	569,100,000	22.42%
Chongqing Saint Information Technology Co., Ltd. (重慶聖商信息科技有限公司) (Note 1)	The Company	Interest of controlled corporation	569,100,000	22.42%
Baoshi (Tianjin) E-commerce Company Limited (寶世(天津)電子商務有限公司) (Note 2)	The Company	Interest of controlled corporation	261,900,000	10.32%
Tianjin Bohai Commodity Exchange Corporation (天津渤海商品交易所股份有限公司) (Note 2)	The Company	Interest of controlled corporation	261,900,000	10.32%
BOCE (Hong Kong) Co., Limited (Note 2)	The Company	Beneficial owner	261,900,000	10.32%
China Ruike Investment & Development Co., Ltd. (中華瑞科投資發展有限公司) (Note 3)	The Company	Beneficial owner	239,103,625	9.42%
Cao Kuanping (Note 3)	The Company	Interest of controlled corporation Beneficial owner Spouse interest	239,103,625 Shares 1,000,000 underlying Shares (L) 1,000,000 underlying Shares (L)	9.42% 0.04% 0.04%
Mao Shanzhen (Note 3)	The Company	Spouse interest Beneficial owner	240,103,625 Shares 1,000,000 underlying Shares (L)	9.46% 0.04%

(L) denote long position

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

(1) The 569,100,000 shares were held by Noble Trade International Holdings Limited* (聖行國際集團有限公司) (formerly 聖商國際集團有限公司)("Noble Trade International") as beneficial owner. Noble Trade International was 100% wholly-owned by Mogen Ltd. ("Mogen"). Mogen was 100% wholly-owned by Chongqing Saint Information Technology Co., Ltd. (重慶聖商信息科技有限公司) which was owned by Mr. Yuan Li, an Executive Director as to 40.21%.

(2) The 261,900,000 shares were held by BOCE (Hong Kong) Co., Limited ("BOCE") as beneficial owner. BOCE was wholly owned by Baoshi (Tianjin) E-commerce Company Limited which was owned by Tianjin Bohai Commodity Exchange Corporation as to 99%.

(3) These underlying shares represent the 1,000,000 share options each held by Mr. Cao Kuanping and his spouse Ms. Mao Shanzhen granted by the Company under the Share Option Scheme.

The 239,103,625 shares are being held by China Ruike Investment & Development Co., Ltd. (中華瑞科投資發展有限公司) ("China Ruike") as beneficial owner. Mr. Cao Kuanping holds 100% interests of China Ruike.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from 1 January 2019 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to enhancing the corporate governance, 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 2019.

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 six months ended 30 June 2019.

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 Group. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

OTHER INFORMATION

AUDIT COMMITTEE

During the six months ended 30 June 2019, The Audit Committee comprises the Independent Non-executive Directors, namely Mr. Tam Chun Chung (resigned on 30 January 2019), Mr. Zhao Jinyong, Mr. Chen Rui and Mr. Fung Tak Choi (appointed on 19 February 2019), including one Independent Non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise.

Mr. Tam Chun Chung resigned as an Independent Non-executive Director and the chairman of the Audit Committee on 30 January 2019 and Mr. Zhao Jinyong has been appointed as the chairman of the Audit Committee on the same date. From 30 January to 18 February 2019, the number of Independent Non-executive Directors of the Board was two, which was less than the minimum number required by Rule 3.10(1) of the Listing Rules and the number of member of the Audit Committee of the Company was also two, which was less than the minimum number required by Rule 3.21 of the Listing Rules. The Company has appointed Mr. Fung Tak Choi as an Independent Non-Executive Director and a member of the Audit Committee on 19 February 2019. As of the date of this interim report, the composition of the Audit Committee is in compliance with related requirements of the Listing Rules. 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 2019.

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 2019 to 30 June 2019, 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 2019.

MATTERS AFTER THE REPORTING PERIOD

Up to the date of this report, apart from the daily business activities of the Company, there has been no significant event occurred after the period.

On behalf of the Board

Yuan Li
Chairman

Hong Kong, 30 August 2019

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	31,899	32,157
Property, plant and equipment		285,262	193,776
Investment properties		4,982	5,066
Intangible assets	7	164	297
Equity investment designated at fair value through other comprehensive income		600	600
		322,907	231,896
Current assets			
Inventories	8	128,514	157,530
Trade and bills receivables	9	20,899	23,989
Prepayments, deposits and other receivables	10	103,184	101,335
Restricted bank deposits	11	12,130	39,060
Cash and cash equivalents	12	54,204	48,075
		318,931	369,989
Total assets		641,838	601,885
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	13	16,766	16,766
Reserves		(247,742)	(210,452)
		(230,976)	(193,686)
Non-controlling interests in equity		20,809	22,787
Total equity		(210,167)	(170,899)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	16	7,759	7,616
Accruals and other payables	15	547,626	348,518
		555,385	356,134
Current liabilities			
Trade and bills payables	14	139,701	161,654
Accruals and other payables	15	24,009	97,456
Contract liabilities		43,864	39,780
Borrowings	16	8,000	38,000
Current income tax liabilities		1,308	22
Derivative financial instruments		26,178	26,178
Other liabilities	17	53,560	53,560
		296,620	416,650
Total liabilities		852,005	772,784
Total equity and liabilities		641,838	601,885

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2019

	Notes	Unaudited Six months ended 30 June 2019 RMB'000	 2018 RMB'000
Revenue		229,003	568,071
Cost of sales	20	(204,992)	(531,775)
Gross profit		24,011	36,296
Other income	18	5,632	8,994
Other gains/(losses) – net	19	(2,546)	(632)
Selling and marketing expenses	20	(31,998)	(75,679)
Administrative expenses	20	(13,760)	(56,709)
Operating loss		(18,661)	(87,730)
Finance income	21	237	590
Finance costs	21	(13,815)	(3,405)
Finance costs – net	21	(13,578)	(2,815)
Share of loss of a joint venture		—	(806)
Loss before income tax		(32,239)	(91,351)
Income tax expense	22	(62)	(346)
Loss for the period		(32,301)	(91,697)
Attributable to:			
– Equity holders of the Company		(30,323)	(87,154)
– Non-controlling interests		(1,978)	(4,543)
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	23	(1.19)	(3.43)
– Diluted	23	(1.19)	(3.43)
Dividends	24	—	—

The notes on pages 25 to 66 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Unaudited Six months ended 30 June	
	Notes	**2019** **RMB'000**	2018 RMB'000
Loss for the period		**(32,301)**	(91,697)
Other comprehensive income or loss		**—**	—
Total comprehensive loss for the period		**(32,301)**	(91,697)
Attributable to:			
– Equity holders of the Company		**(30,323)**	(87,154)
– Non-controlling interest		**(1,978)**	(4,543)
		(32,301)	(91,697)

The notes on pages 25 to 66 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Note	Attributable to equity holders of the Company							
		Share capital RMB'000 (Note 13)	Share premium RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018		13,739	1,613,731	28,007	55,395	(1,909,166)	(198,294)	28,756	(169,538)
Loss for the period		–	–	–	–	(87,154)	(87,154)	(4,543)	(91,697)
Issue of ordinary shares		3,027	190,533	–	–	–	193,560	–	193,560
Balance at 30 June 2018		16,766	1,804,264	28,007	55,395	(1,996,320)	(91,888)	24,213	(67,675)
Balance at 31 December 2018		16,766	1,803,618	28,007	55,395	(2,097,472)	(193,686)	22,787	(170,899)
Adjustment on initial application HKFRS 16	2.2	–	–	–	–	(6,967)	(6,967)	–	(6,967)
Adjusted balance at 1 January 2019		16,766	1,803,618	28,007	55,395	(2,104,439)	(200,653)	22,787	(177,866)
Loss for the period		–	–	–	–	(30,323)	(30,323)	(1,978)	(32,301)
Total Comprehensive loss		–	–	–	–	(30,323)	(30,323)	(1,978)	(32,301)
Balance at 30 June 2019		**16,766**	**1,803,618**	**28,007**	**55,395**	**(2,134,762)**	**(230,976)**	**20,809**	**(210,167)**

The notes on pages 25 to 66 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Cash flows used in operating activities:			
Cash used in operations		**(36,307)**	(301,970)
Interest paid		**(2,792)**	(4,435)
Income tax paid		**(145)**	(345)
Net cash used in operating activities		**(39,244)**	(306,750)
Cash flows from investing activities:			
Purchase of property, plant and equipment		**463**	(1,504)
Purchase of intangible assets		**—**	(302)
Proceeds from disposal of property, plant and equipment		**—**	(633)
Proceeds from disposal of short term investments		**366**	—
Interest received		**—**	612
Net cash used in investing activities		**829**	(1,827)
Cash flows from financing activities:			
Advance from third parties and related parties	15	**86,113**	252,000
Repayments of advance from third parties		**143**	—
Repayment of bank borrowings	16	**(30,000)**	(96,877)
Repayments of advance from third parties and related parties		**—**	(5,000)
Consideration paid to a former non-controlling interest holder of a subsidiary		**—**	193,557
Payment of lease liabilities		**(11,702)**	—
Net decrease in restricted cash relating to financing activities		**—**	20,390
Net cash generated from financing activities		**44,554**	364,070
Increase in cash and cash equivalents		**6,139**	55,493
Cash and cash equivalents at beginning of the period		**48,075**	56,496
Exchange differences on cash and cash equivalents		**(10)**	—
Cash and cash equivalents at end of the period		**54,204**	111,989

The notes on pages 25 to 66 are an integral part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

1. GENERAL INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The unaudited consolidated financial statements have been prepared under the historical cost convention, as modified by certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

The unaudited consolidated financial statements for the six months ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint venture.

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods, Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 4 below.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 BASIS OF PREPARATION *(Continued)*

2.1.1 Going Concern Basis

The Group incurred a net loss attributable to the equity holders of the Company of approximately RMB30,323,000 and had a net operating cash outflow of approximately RMB39,244,000 for the six months ended 30 June 2019. As at 30 June 2019, the Group's total liabilities exceeded its total assets by approximately RMB210,167,000.

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

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

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

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

(iv) On 5 June 2019, a company controlled by Yuan Yang (family member of the Chairman, Yuan Li) made an advance of approximately RMB42,207,000 (equivalent to USD6,170,000) to the Company at a fixed interest rate of 5% per annum. The advance will be due for repayment on 6 June 2020; Having regard to adequacy of the existing funding for maintaining operation, the Group has obtained consent from the Company after negotiation for further borrowing temporarily from time to time in July 2019 whenever any need arises on the side of the Company.

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 BASIS OF PREPARATION *(Continued)*

2.1.2 Impact on the report brought by the progress of litigation between Suohai and Zhipu

As disclosed in announcements of the Group dated 26 October 2018, 26 November 2018, 26 December 2018, 27 January 2019, 26 February 2019, 26 March 2019, 26 April 2019, 26 May 2019, 26 June 2019 and 26 July 2019 (the "Announcements"), as at 21 August 2018, the Group initiated a legal proceeding at the Intermediate People's Court of Yangzhou in relation to the possible losses incurred by the prepayments to Suohai and Zhipu of RMB35,537,100, during which a number of legal procedures have been undertaken. On 27 August 2019, the Company received the judgement from Jiangsu Provincial High Court in respect of the rebuttal of the appeal for jurisdiction challenge initiated by Suohai and Zhipu. The trial shall continue to proceed in the Intermediate People's Court of Yangzhou. Through further trial by the court, the Group expected to administer a real estate asset of the two suppliers of approximately RMB50 million attached by the court and other assets that can be administered by the court to compensate part of the losses incurred from the prepayments of the two suppliers.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group has initially adopted HKFRS 16 leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in accumulated losses at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Changes in significant accounting policies *(Continued)*

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under HK(IFRIC) Interpretation 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transaction to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) Interpretation 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocated the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

B. As a lessee

The Group leases many properties. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property, the same line item as it presents underlying assets of the same nature that it owns. Right-of-use assets that meet the definition of investment property are presented within investment property. The carrying amounts of right-of-use assets are as below.

	Included in property, plant and equipment
Balance at 1 January 2019 (in thousands of RMB)	107,359
Balance at 30 June 2019 (in thousands of RMB)	95,813

The Group presents lease liabilities in "Accruals and other payables" in the consolidated statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Changes in significant accounting policies *(Continued)*

B. As a lessee *(Continued)*

i. Significant accounting policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is measured at cost in accordance with the Group's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discounted rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Changes in significant accounting policies *(Continued)*

B. As a lessee *(Continued)*

ii. Transition

Previously, the Group classified property leases as operating leases under HKAS 17. These include warehouse and shops. The leases typically run for a period of less than 15 years. Some leases include an option to renew the lease. Some leases provide for additional rent payments that are based on turnover.

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

— their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its property leases; or

— an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group used the following practical expedients when applying HKFRS 16 to lease previously classified as operating leases under HKAS 17.

— Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. As a lessor

The Group leases out its investment property, including right-of-use assets. The Group has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under HKAS 17. However, when the Group is an intermediate lessor, the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor. However, the Group has applied HKFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

The Group sub-leases some of its properties. Under HKAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to HKFRS 16, the right-of-use assets recognized from the head leases are presented in investment property, and measured at cost on transition to HKFRS 16. The sub-lease contracts are classified as operating leases under HKFRS 16.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Changes in significant accounting policies *(Continued)*

D. Impacts on financial statements

i. Impacts on transition

On transition to HKFRS 16, the Group recognized additional right-of-use assets, including in the property, plant and equipment and additional lease liabilities, recognizing the difference in accumulated losses. The impact on transition is summarized below.

In thousands of RMB	1 January 2019
Right-of-use assets presented in property, plant and equipment	107,359
Lease liabilities	102,046
Accumulated losses	(6,967)
Profit or loss	12,280

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 5.26%.

In thousands of RMB	1 January 2019
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	116,080
Discounted using the incremental borrowing rate at 1 January 2019	105,948
– Recognition exemption for leases of low-value assets	(6)
– Recognition exemption for leases with less than 12 months of lease term at transition	(3,896)
Lease liabilities recognized at 1 January 2019	102,046

ii Impacts for the period

In relation to those leases under HKFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognized approximately RMB 11,546,000 depreciation charges and RMB 2,284,000 of interest costs from these leases. No depreciation is recognized for the right-of-use asset that meets the definition of investment property.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT

3.1 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 Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Categories of financial instruments

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Financial assets		
Equity investment designated at fair value through other comprehensive income	600	600
Financial assets at amortised cost	87,833	123,183
	88,433	123,783
Financial liabilities		
Fair value through profit or loss:		
Derivative financial instruments	26,178	26,178
At amortised cost:	722,165	705,374
	748,343	731,552

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(b) Foreign exchange risk

The Group operates mainly in the PRC and is exposed to foreign exchange risk with respect to primarily HK dollar and US dollar. Foreign exchange risk arises from recognised assets and liabilities. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the six months ended 30 June 2019 and 2018.

As at 30 June 2019, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currencies of the respective group entities are as follows:

	Unaudited 30 June 2019		Audited 31 December 2018	
	HK Dollar RMB'000	**US Dollar RMB'000**	HK Dollar RMB'000	US Dollar RMB'000
Cash and bank balances	**56**	**28,453**	26,679	239
Accruals and other payables	**(37,210)**	**(42,444)**	(25,410)	—
Borrowings	**(7,759)**	**—**	(7,616)	—

As at 30 June 2019, if RMB had weakened/strengthened by 5% (2018: 5%), against HK Dollar with all other variables held constant, pre-tax loss for the year would have been approximately RMB2,245,000 higher/lower (2018: pre-tax loss for the year RMB317,000), mainly as a result of foreign exchange gains/losses on translation of HK dollar-denominated cash and bank balances, accruals and other payables, and borrowings.

(c) Cash flow and fair value interest rate risk

Other than bank deposits with stable interest rate (Note13), the Group has no other significant interest-bearing assets. The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, as the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. As at 30 June 2019, borrowings at fixed rates comprise bank borrowings of approximately RMB8,000,000 (31 December 2018: RMB38,000,000) and other borrowings/advances of approximately RMB442,718,000 (31 December 2018: RMB369,525,000). Borrowings at fixed rates exposed the Group to fair value interest rate risk. The Group did not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 16.

(d) Credit risk

Majority of the Group's retail sales are settled in cash, credit/other payment cards, bank acceptance bills or telegraph bank transfers by its customers upon delivery of goods. The carrying amounts of the bank balances, trade and bills receivables, and other financial assets included in prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(d) Credit risk *(Continued)*

(i) Deposits with banks

The Group maintains substantially most of its bank balances and cash in interest-bearing accounts in several nationwide and regional renowned financial institutions in the PRC without significant credit risk. Management does not expect any significant losses from non-performance of these financial institutions. The five largest bank deposit balances for the restricted bank deposits and cash and cash equivalents are listed as below:

	Rating (Note)	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Five largest restricted bank deposits			
– Huishang Bank	N/A	8,100	11,850
– Bank of China	A-1	4,020	2,000
– China Minsheng Bank	A-3	10	10
– Agricultural Bank of China	A-1	—	23,100
– China Merchants Bank	A-2	—	2,100
		12,130	39,060

		As at 31 December	
	Rating (Note)	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Five largest cash and cash equivalents			
– Agriculture bank of China	A-1	32,183	35,967
– Bank of China	A-1	9,514	5,922
– China Construction Bank	A-1	4,227	3,362
– Huishang Bank	N/A	1,894	736
– Bank of Communications	A-2	362	1,771
		48,180	47,758

Note:

These are Standard and Poor's short term credit ratings.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables

Trade receivables are due from wholesale customers with an appropriate financial strength. The Group grants the average credit term to these customers ranging from 30 days to 90 days, and the balances exceeding the credit term are monitored by the Group.

Bills receivables are the bills issued by customers and accepted by banks, they are expired usually in 3 months to 6 months. The directors are of the opinion that there is no significant credit risk on those bills, because most of the bills are accepted by several nationwide and regional renowned financial institutions in the PRC without significant credit risk.

The Group assess the credit quality of other receivables by taking into account various factors including their financial position, past experience and other factors.

Other receivables also comprise the rental deposits. Rental deposits are placed with various landlords in the PRC and are due upon the expiry of the tenancy agreements and handover of the leased premises.

The carrying amount of receivables included in the condensed consolidated interim statement of financial position represents the Group's maximum exposure to credit risk in relation to these financial assets.

(I) The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 30 June 2019:

	Expected loss rate	Gross carrying amount	Loss allowance
Current (not past due)	5%	3,987	199
1-8 months past due	5%	15,902	795
9–20 months past due	47%	2,643	1,242
21 months or over past due	54%- 100%	14,612	14,340
		37,144	16,576

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

As at 31 December 2018, the Group has provided RMB 15,407,000 of impairment allowance for credit-impaired trade receivables.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(II) Other receivables, deposits and other financial assets are measured at amortised cost. To measure the expected credit losses of financial assets at amortised cost as included in prepayments, deposits and other receivables have been grouped based on credit risk characteristics and internal credit risk assessment.

Impairment loss allowance provision movement

As at 30 June 2019, the impairment loss allowance provision for financial assets at amortised cost as included in prepayments, deposits and other receivables reconciles to the opening impairment loss allowance provision as follows:

Impairment loss allowance provision movement	Loans and receivables as included in "Prepayments, deposits and other receivables" Other receivables RMB'000	Prepayments to Suohai and Zhipu RMB'000	Total RMB'000
As at 1 January 2018	1,590	366,623	368,213
Reversal of allowance against two television set suppliers upon settlement during the year	—	(11,252)	(11,252)
Impairment loss allowance against other Receivables	4,798	—	4,798
Prepayments to two television set suppliers written off	—	(355,371)	(355,371)
As at 31 December 2018	6,388	—	6,388

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(II) *(Continued)*

Impairment loss allowance provision movement *(Continued)*

Impairment loss allowance provision movement	Financial assets at amortised cost as included in "Prepayments, deposits and other receivables" 12 month ECL Other receivables RMB'000	Lifetime ECL (credit-impaired) Prepayments to Suohai and Zhipu RMB'000	Total RMB'000
As at 31 December 2018	6,388	—	6,388
Reversal of allowance against two television set suppliers upon settlement during the year	(1,357)	—	(1,357)
As at 30 June 2019	5,031	—	5,031

(III) The following table provides information about the Group's exposure to credit risk and ECLs for financial assets at amortised cost as included in prepayments, deposits and other receivables as at 30 June 2019.

(a) Other receivables – 12 month ECL

	Expected loss rate	Gross carrying amount	Loss allowance
Within 1 year (Medium risk)	20.97%	11,759	2,466
Over 1 year (Medium risk)	60.39%	4,247	2,565
		16,006	5,031

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(III) *(Continued)*

(b) Prepayment to two television set suppliers. These two suppliers were in default with full impairment made by using Lifetime ECL as they had been credit-impaired. As at 31 December 2018, prepayments to these two suppliers were written off as the Group has no realistic prospect of recovery due to severe litigation with potential difficulties in enforcing any judgement against them.

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade receivables	**1,168**	(1,154)
Financial assets at amortised cost as included in prepayments, deposits and other receivables	**—**	6,454
	1,168	5,300

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(d) Credit risk *(Continued)*

(ii) Receivables (Continued)

(IV) The Group's internal assessment in respect of other receivables, deposits and other financial assets at amortised cost comprises the following categories:

Internal credit assessment	Description	Other receivables, deposits and other financial assets at amortised cost
Low risk	The counterparty has a low risk of default and does not have any past due amounts	12 month ECL
Medium risk	Debtors frequently repay after due date but usually settle after due date	12 month ECL
Watch list	There have been significant increase in credit risk since initial recognition through internal or external resources	Lifetime ECL – not credit impaired
Doubtful	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and litigation, and the Group has no realistic prospect of recovery.	Amount is written off

(e) Liquidity risk

Management of the Group aims to maintain sufficient cash through internally generated sales proceeds and external sources of funds through committed credit facilities from bank or other borrowings from individual third parties and related parties of the Company to meet the operation needs. Actions taken by management of the Group to meet immediate liquidity needs are also described in Note 2.1.1.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(e) Liquidity risk *(Continued)*

	Contractual undiscounted cash flow			
	Within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000	Carrying Amount RMB'000
As at 30 June 2019				
Non-derivative financial liabilities				
Bank borrowings	8,035	—	8,035	8,000
Bonds payables	526	10,054	10,580	7,759
Trade and bills payables	120,702	32,411	153,112	139,701
Accruals and other payables	21,214	4,956	26,170	24,009
Other current liabilities	53,560	—	53,560	53,560
Subtotal	204,037	47,421	251,457	233,029
Derivative financial instruments				
Derivative in the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd.	26,178	—	26,178	26,178
	230,215	47,421	277,635	259,207
As at 31 December 2018				
Non-derivative financial liabilities				
Bank borrowings	38,952	—	38,952	38,000
Bonds payables	526	10,470	10,996	7,616
Trade and bills payables	161,654	—	161,654	161,654
Accruals and other payables	99,953	371,976	471,929	444,544
Other current liabilities	53,560	—	53,560	53,560
Subtotal	354,645	382,446	737,091	705,374
Derivative financial instruments				
Derivative in the interest in Nanjing Ruihu Electronic Commercial Technology Co. Ltd	26,178	—	26,178	26,178
	380,823	382,446	763,269	731,552

Note:

The interest payments on borrowings are calculated based on borrowings held as at 30 June 2019 and 31 December 2018 without taking into account of future borrowings.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior year.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of cash and cash equivalents of approximately RMB54,204,000 as at 30 June 2019(31 December 2018:RMB48,075,000) and equity attributable to owners of the Company of approximately (RMB230,976,000) as at 30 June 2019(31 December 2018: (RMB193,686,000)), comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with its capital.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

(a) ACCRUALS OF REBATES FROM SUPPLIERS AND PROVISION FOR SUPPLIER REBATE RECEIVABLES

(i) Accruals of supplier rebate receivables

The Group enters into agreements 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 rebates settlement record and the future purchase plan of the Group from these suppliers. The accruals of supplier rebates receivable will be made after such adjustments, and initially recorded as a deduction in inventories and subsequently reflected them as a reduction in cost of sales when the related merchandise is sold.

(ii) Provision for supplier rebate receivables

Slowdown in the markets in which the Group operates, or a significant change in the credit quality of suppliers may result in the rebates actually received varying from that accrued in the condensed consolidated interim financial statements.

Impairment of supplier rebate receivables is made, if necessary, taking into consideration of changes in the economic conditions, the credit quality and financial position of the suppliers. During the period ended 30 June 2019, the impairment of approximately RMB 461,000 for the supplier rebate receivables was recognised in 'administrative expenses'. During the six months ended 30 June 2019, no impairment for the supplier rebate receivables was recognized.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) NET REALISABLE VALUE OF INVENTORIES

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. The Group will reassess the estimations by each reporting date.

(c) ESTIMATED IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

The Group follows HKAS 36 to determine whether non-financial assets have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less cost of disposal and value in use. The value in use calculations require the use of estimates. In case the recoverable amount is determined with reference to the fair value less costs of disposal, when the fair value less cost of disposal are less than expected or there are unfavourable events and changes in facts and circumstances which result in revision of fair value less costs of disposal, a material impairment may arise.

During the six months ended 30 June 2019, the Group reversed impairment losses of approximately RMB 122,000 on prepayments to other suppliers (31 December 2018:RMB1,019,000).

(d) ESTIMATE OF FAIR VALUE OF INVESTMENT PROPERTIES FOR DISCLOSURE PURPOSE

All the Group's investment properties are accounted for using the cost model. For disclosure purpose, the Group determines the fair value of its investment properties at each reporting date based on a valuation performed by the management of the Group. The valuation is based on a discounted cash flow projection which involves making estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(e) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Certain of the Group's financial assets and financial liabilities as described in Note 3.3 are measured at fair value with fair values being determined based on unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) PROVISION FOR ECL FOR TRADE RECEIVABLES AND FINANCIAL ASSETS AT AMORTISED COST INCLUDED IN PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs or effort. At the end of reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, financial assets at amortised cost included in prepayments, deposits and other receivables with significant balances and credit-impaired are assessed for ECL individually. In respect of other financial assets at amortised cost as included in prepayments, deposits and other receivables, to measure the expected credit losses have been grouped based on credit risk characteristics and internal credit risk assessment.

5. REVENUE AND SEGMENT INFORMATION

(i) REVENUE

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

Disaggregation of revenue from contracts with customers:

	Unaudited Six months ended 30 June	
	2019 **RMB'000**	2018 RMB'000
Types of goods and services		
Sales of goods		
– Traditional business	**215,173**	469,742
– New retail business	**—**	79,229
Rendering of services		
– Maintenance and installation service	**13,830**	19,100
Total revenue	**229,003**	568,071
Timing of revenue recognition		
A point in time	**229,003**	568,071

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) SEGMENT INFORMATION

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

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

During the reporting period, the Group made adjustment to its business strategies, resources allocation and internal reporting to adapt to the market conditions. The Directors determined to re-organise the principal operations of the Group into Traditional business from sales of household appliances, including the results from rendering maintenance and installation services

The unaudited segment results for the six months ended 30 June 2019 are as follows:

	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	229,003	—	—	—	229,003
Inter-segment revenue					
Revenue from external customers	229,003	—	—	—	229,003
Operating profit/(loss)	(18,661)	—	—	—	(18,661)
Finance costs - net					(13,578)
Profit before income tax					(32,239)
Income tax expense					(62)
Profit for the period					(32,301)
Other segment items are as follows:					
Capital expenditure	117	—	—	—	117
Depreciation charge	14,613	—	—	—	14,613
Amortisation charge	391	—	—	—	391

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) SEGMENT INFORMATION *(Continued)*

The unaudited segment results for the six months ended 30 June 2018 are as follows:

	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	503,001	79,229	18,902	198	601,330
Inter-segment revenue	(33,259)	—	—	—	(33,259)
Revenue from external customers	469,742	79,229	18,902	198	568,071
Operating profit/(loss)	(52,006)	(22,892)	(4,825)	(8,007)	(87,730)
Finance costs - net					(2,815)
Share of loss of a joint venture					(806)
Profit before income tax					(91,351)
Income tax expense					(346)
Profit for the period					(91,697)
Other segment items are as follows:					
Capital expenditure	1,381	414	11	—	1,806
Depreciation charge	3,689	957	104	—	4,750
Amortisation charge	981	1,119	9	—	2,109

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) SEGMENT INFORMATION *(Continued)*

Unaudited segment assets and liabilities as at 30 June 2019 are as follows:

	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Group RMB'000
As at 30 June 2019				
Segment assets	**641,838**	**—**	**—**	**641,838**
Total assets	**641,838**	**—**	**—**	**641,838**
Segment liabilities	**852,005**	**—**	**—**	**852,005**
Total liabilities	**852,005**	**—**	**—**	**852,005**

Unaudited segment assets and liabilities as at 30 June 2018 are as follows:

	Traditional business RMB'000	New retail business RMB'000	All other segments RMB'000	Group RMB'000
As at 30 June 2018				
Segment assets	442,624	108,614	14,791	566,029
Unallocated assets				283,979
Total assets				850,008
Segment liabilities	551,146	189,813	53,801	794,760
Unallocated liabilities				122,923
Total liabilities				917,683

6. LAND USE RIGHTS

The Group's interests in land use rights represent upfront payments for land use rights and their net book amounts are analysed as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Opening net book amount	32,157	27,740
Additions	—	5,214
Amortisation	(258)	(797)
Closing net book amount	31,899	32,157
Cost	50,703	50,703
Accumulated depreciation	(7,401)	(7,143)
Accumulated impairment	(11,403)	(11,403)
Closing net book amount	31,899	32,157

All of the Group's land use rights are located in Mainland China and are held on leases between 27 to 40 years.

(a) AMORTISATION OF LAND USE RIGHTS

Amortisation of the Group's land use rights has been charged in profit or loss and included in the administrative expenses.

(b) PLEDGE OF LAND USE RIGHTS

As at 30 June 2019, land use rights with the carrying amount of approximately RMB32,157,000 (2018: RMB27,740,000) and the relevant buildings with the carrying amount of approximately RMB180,259,000 (2018: RMB180,259,000) have been pledged to banks and an independent third party (2018: banks and an independent third party) for general bank and credit facilities granted to the Group (Note 15 and Note 16).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

7. INTANGIBLE ASSETS

	Non-compete agreements RMB'000	Computer software RMB'000	Total RMB'000
Year ended 31 December 2018			
Opening net book amount at 1 January 2018	—	851	851
Addition		311	311
Amortisation	—	(865)	(865)
Closing net book amount	—	297	297
At 31 December 2018			
Cost	4,970	8,407	13,377
Accumulated amortisation	(4,970)	(8,110)	(13,080)
Net book amount	—	297	297
Unaudited six months ended 30 June 2019			
Opening net book amount at 1 January 2019	—	297	297
Amortisation	—	(133)	(133)
Closing net book amount	—	164	164
At 30 June 2019			
Cost	4,970	8,407	13,377
Accumulated amortisation	(4,970)	(8,243)	(13,213)
Net book amount	—	164	164

The amortisation charge for the year is included in "administrative expenses"in the condensed consolidated interim income statements.

8. INVENTORIES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Merchandise held for resale	**134,766**	163,215
Write-down of inventories for obsolescence	**(6,401)**	(5,846)
	128,365	157,369
Low value consumables	**149**	161
Total	**128,514**	157,530

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Included in cost of sales		
– Carrying amount of merchandise sold	**204,000**	912,022
– (Reversal of write-down)/Write down of inventories for obsolescence	**(555)**	(15,737)
	203,445	896,285

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realizable value of certain merchandise as a result of a change in consumer preferences.

9. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade receivables	**37,144**	38,506
Less: Provision for impairment	**(16,576)**	(15,407)
Trade receivables, net	**20,569**	23,099
Bills receivable	**330**	890
Trade and bills receivables, net	**20,899**	23,989

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

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
0 - 30 days	**7,485**	13,613
31 - 90 days	**3,531**	4,298
91 - 365 days	**11,402**	4,786
1 year - 2 years	**4,144**	2,745
2 years - 3 years	**1,128**	12,176
Over 3 years	**9,454**	888
Total	**37,144**	38,506

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

The maximum exposures of the Group to credit risk from trade and bills receivables as at the end of the reporting period were the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 3.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2019

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLE

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Prepayments to suppliers, net of provision	18,118	47,250
Rebate receivable from suppliers, net of provision(note (a))	—	461
Prepaid rentals	5,012	8,517
Deposits	940	2,323
– Value added tax recoverable	31,266	33,049
– Interests receivable from banks	—	129
– Amount paid on behalf of certain suppliers	—	674
– Staff advances	312	1,411
– Others	12,167	7,521
	66,875	101,335

Note:

(a) During the six months ended 30 June 2019, impairment loss of approximately RMB 461,000 (31 December 2018:Nil) on rebate receivables from suppliers was recognized, taking into account of the business relationship, the quality and financial position of the suppliers. While in the same period, impairment loss of approximately RMB Nil (31 December 2018: Nil) on rebate receivables was written off. As at 30 June 2019, the accumulated impairment losses on rebate receivables from suppliers was approximately RMB708,023,000 (31 December 2018: RMB707,562,000).

(b) During the six months ended 30 June 2019, impairment losses of approximately RMB7,643,000 on other receivables were recognized, taking into account of the expected credit loss on these other receivables. As at 30 June 2019, the accumulated impairment losses on other receivables amounted to approximately RMB14,030,692(31 December 2018: RMB6,388,000).

(c) During the six months ended 30 June 2019, impairment losses of approximately RMB9,122,000 on prepayments to other suppliers were reversed in view of long outstanding merchandise to be supplied by these other suppliers (31 December 2018: impairment losses of approximately RMB1,019,000). As at 30 June 2019, the accumulated impairment losses on other suppliers amounted to approximately RMB1,252,000 (31 December 2018: RMB1,786,000).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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11. RESTRICTED BANK DEPOSITS

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Restricted bank deposits	12,130	39,060

As at 30 June 2019, restricted bank deposits of approximately RMB12,130,000 (2018: RMB39,060,000) had been pledged as collateral for the Group's bank acceptance bills of approximately RMB12,130,000 (2018: RMB39,050,000) (Note 14).

All restricted bank deposits were denominated in RMB. As at 30 June 2019, the weighted average interest rate on restricted bank deposits was 1.3% (2018: 2.17%) per annum.

12. CASH AND CASH EQUIVALENTS

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Cash on hand		
– denominated in RMB	180	136
Cash at bank		
– denominated in RMB	25,515	21,021
– denominated in HK$	56	26,679
– denominated in US$	28,453	239
	54,024	47,939
	54,204	48,075

At the end of the reporting period, the effective interest rate per annum was as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
RMB	0.35%	0.35%
HK$	0.001%	0.001%
US$	0.001%	0.001%

13. SHARE CAPITAL

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

	Par value	Number of ordinary shares	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB'000
Authorised:				
At 1 January 2017	US$0.001	2,000,000,000	2,000,000	10,598
Additions	US$0.001	2,000,000,000	2,000,000	13,549
At 31 December 2017, 1 January 2018 and 31 December 2018	US$0.001	4,000,000,000	4,000,000	24,147
Issued and fully paid:				
At 1 January 2017	US$0.001	1,718,860,017	1,718,860	11,462
Issue of new shares (b)	US$0.001	339,100,000	339,100	2,277
At 31 December 2017	US$0.001	2,057,960,017	2,057,960	13,739
Issue of new shares (a)	US$0.001	480,000,000	480,000	3,027
At 30 June 2019	US$0.001	2,537,960,017	2,537,960	16,766

Notes:

(a) Share Option Schemes

The share option schemes currently applicable are as follows:

(i) Share option scheme on 14 May 2015

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

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

The significant inputs to the model are summarised as below:

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

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13. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(a) Share Option Schemes *(Continued)*

(i) Share option scheme on 14 May 2015 *(Continued)*

During the six months ended 30 June 2019, no share option was exercised (2018: Nil) and no share option was forfeited (2018: 48,000,000 shares was forfeited).

As at 30 June 2019, 21,500,000 shares were outstanding and exercisable (31 December 2018: 21,500,000 shares were outstanding and exercisable. These options will be expired on 13 May 2020.

(ii) Share option scheme on 22 December 2015

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

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

The significant inputs to the model are summarised as below:

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

During the six months ended 30 June 2019, no share option was exercised and no share options were forfeited (2018: no share option was exercised and 113,700,000 shares were forfeited).

As at 30 June 2019, 11,380,000 share options were outstanding and exercisable (31 December 2018: 11,380,000 share options were outstanding and exercisable). These options will be expired on 21 December 2025.

14. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade payables	127,581	122,604
Bills payable	12,120	39,050
	139,701	161,654

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

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
0 - 30 days	12,516	57,149
31 - 90 days	40,212	12,550
91 - 365 days	41,950	28,666
1 year - 2 years	30,267	21,874
2 years -3 years	2,441	2,170
Over 3 years	195	195
	127,581	122,604

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

As at 30 June 2019, approximately RMB12,130,000 (2018: RMB39,060,000) had been pledged as collateral for the Group's bank acceptance bills of approximately RMB12,130,000 (2018: RMB39,050,000) (note 11).

15. ACCRUALS AND OTHER PAYABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Non-current		
Advances from third parties and related parties, interest bearing (note 1 & 2)	394,703	340,800
Interest payables (note 1)	48,015	7,718
Lease liabilities	104,908	—
	547,626	348,518
Current		
Salary and welfare payables	3,840	29,175
Accrued expenses	909	7,310
Deposits	940	2,609
Value added tax and other tax payables	1,308	1,430
Interest payables	264	2,205
Deposits for subscription of ordinary shares of the Company (note (3))	10,660	2,930
Advances from third parties, interest bearing	—	25,410
Advances from equity investor of an associate and accrued penalty	—	3,900
Amount due to a shareholder	—	4,894
Rental payable to a former director	—	2,872
Others	7,397	14,721
	25,318	97,456
Total	572,944	445,974

15. ACCRUALS AND OTHER PAYABLES *(Continued)*

Notes:

(1) Non-current advance from independent third parties and related parties and related interest payables

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Independent third parties		
Individual (note 2(i)& (ii)) and corporate (note 2(iii)-(v))	**260,203**	210,800
Entities controlled by the Chairman (note vi)	**54,500**	50,000
Entity connected with a director of the joint venture (note (vii))	**80,000**	80,000
	394,703	340,800
Interest payables arising from the non current advance:		
Individual (note 2(i)& (ii)) and corporate (note 2(iii)-(v))	**38,105**	5,595
Entities controlled by the Chairman (note vi)	**5,131**	1,331
Entity connected with a director of the joint venture (note (vii))	**4,779**	792
	48,015	7,718
Non-current	**442,718**	348,518

All of the non-current interest bearing advances from third parties and related parties are carried at amortised cost. None of the non-current interest bearing advances is expected to be settled within one year.

(2) Terms of current and non-current advance from independent third parties and related parties

(i) Advances from an independent individual third party of approximately RMB 152,000,000 are denominated in RMB, carry interest at a fixed rate ranging from 5% to 6.5% per annum and are repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing. The principal of RMB24,804,000 was repaid in June 2019.

(ii) On 5 June 2019, a company controlled by Yuan Yang (family member of the Chairman, Yuan Li) made an advance of approximately RMB42,207,000 (equivalent to USD6,170,000) to the Company at a fixed interest rate of 5% per annum. The advance will be due for repayment on 6 June 2020; Having regard to adequacy of the existing funding for maintaining operation, the Group has obtained consent from the Company after negotiation for further borrowing temporarily from time to time in July 2019 whenever any need arises on the side of the Company.

(iii) On 5 June 2019, Yangzhou Huiyin borrowed an amount of RMB32 million from 揚州德忠生科技有限公司, with a borrowing interest rate of 5%, with a term of 2 whole years commencing from the date of borrowing.

(iv) Advances (RMB55,000,000) from an independent third party (corporate) are denominated in RMB, carry interest at a fixed rate of 6.5% per annum and are repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing.

(v) Advance (RMB3,800,000) from an independent third party (corporate) is denominated in RMB, carries interest at a fixed rate of 5.5% per annum and is repayable together with interest payable in May 2020, being 2 years from the date of the relevant borrowing.

(vi) Advances of RMB54,500,000 from entities controlled by the Chairman (Mr. Yuan Li) of the Company are denominated in RMB, carry interest at a fixed rate ranging from 5% per annum and are repayable together with interest payable in 2020, being 2 years from the date of each relevant borrowing. The borrowings are unsecured.

The above entities are 廣東聖融金服控股有限公司 and 聖商(北京)控股集團有限公司, both of which are controlled by Mr. Yuan Li.

(vii) Other borrowings from an entity (新餘滴行京流科技有限公司) is a company in which the director of a joint venture, 汪明英 holds 18% interest in the entity. The borrowings are denominated in RMB and carry interest at a fixed rate of 6.5% per annum. RMB50,000,000 of the other borrowings is repayable in September 2020, being 2 years from the date of the borrowing and the related accrued interest is payable on demand. RMB30,000,000 of the other borrowings is repayable together with interest payable in June 2020, being 2 years from the date of the borrowing. The borrowings are unsecured.

15. ACCRUALS AND OTHER PAYABLES *(Continued)*

Notes: *(Continued)*

(3) As at 30 June 2019, the deposits of approximately RMB10,660,000(31 December 2018: RMB10,015,000) represents the remaining proceeds from shareholders for subscription of ordinary shares of the Company during the year 2018.

The other accruals and other payables of the Group are mainly denominated in RMB and their carrying amounts approximate their fair values at the end of the reporting period.

16. BORROWINGS

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Non-current		
Bonds payables (a)	**7,759**	7,616
Current		
Bank borrowings (b)	**8,000**	38,000
	15,759	45,616

(a) BONDS PAYABLES

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

(b) BANK BORROWINGS

As at 30 June2019, the Group's bank borrowings were repayable as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 1 year	**8,000**	38,000

As at 30 June 2019, the Group's land use rights (Note 6) and the relevant buildings with the aggregate carrying amount of RMB17,328,000 have been pledged as collateral for the Group's bank borrowings of RMB8,000,000.

16. BORROWINGS *(Continued)*

(b) BANK BORROWINGS *(Continued)*

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
6 months or less	**8,000**	—
6 - 12 months	**—**	38,000
	8,000	38,000

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

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Current		
– RMB	**8,000**	38,000

The Group's bank borrowings with the aggregate carrying amount of RMB8,000,000 (31 December 2018: RMB38,000,000) are all of fixed rates.

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Current	**5.26%**	5.07%

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17. OTHER LIABILITIES

	RMB'000
As at 30 June 2019 and 31 December 2018	53,560

The other liabilities arising from the contingent consideration arrangements represented payable to the former owner of acquired subsidiary in 2010, Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd ("Anhui Four Seas"). The contingent period was passed and the estimated consideration was at RMB53,560,000. The consideration payables are still subject to final negotiation with the former owner, which might be further adjusted when agreed.

18. OTHER INCOME

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Income from suppliers on promotion activities	—	3,739
Rental income from investment properties	1,141	2,568
Membership fee income	—	1,687
Government subsidies	—	1,000
Maintenance and repairment etc.	4,187	—
Other	304	—
	5,632	8,994

Note:

All of the government subsidies for the year ended 31 December 2018 represent amounts received during the respective years related to the Group's operating activities and other activities and are not subject to any conditions nor intended to compensate future costs.

Direct outgoings in relation to rental receivable from investment properties were RMB Nil (31 December 2018: RMB Nil).

19. OTHER LOSSES – NET

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Losses on disposal of property, plant and equipment, net	(69)	(1,385)
Gains on disposal of subsidiaries	(98)	753
Gain on fair value change of derivative financial instruments	(67)	—
Penalty charge for late repayment of advance from equity investor of an associate	(2,312)	—
	(2,546)	(632)

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20. LOSS BEFORE INCOME TAX

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

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Cost of merchandise before deducting supplier rebates(Note(a))	214,352	531,106
Supplier rebates(Note(a))	(10,907)	—
Taxes and levies on main operations(Note(a))	335	564
Employee benefit expenses - including the directors' emoluments	13,901	42,669
Service charges	1,973	399
Operating lease expenses in respect of buildings and warehouses	—	18,590
Promotion and advertising expenses	5,531	6,363
Amortisation of land use rights (Note 6)	258	1,446
Depreciation of property, plant and equipment	14,613	4,382
Depreciation of investment properties	85	—
Amortisation of intangible assets (Note 7)	133	66
Utilities and telephone expenses	2,627	5,831
Transportation expenses	1,715	4,557
Entertainment expenses	965	3,881
Travelling expenses	468	1,784
Office expenses	1,760	1,062
Accrual/(reversal) of provision for obsolescence on inventories (Note 8)	(555)	23,492
Accrual/(reversal) of provision for impairment on trade receivables (Note 9)	1,168	14,253
Reversal of provision for advance payments to suppliers	122	—
Property tax and other taxes	1,096	1,154
Auditor's remuneration	4,717	6,609
Bank charges	10,895	1,954
Consulting expenses	1,147	959
Others	835	30,118
	267,234	701,239

Note:

(a) Included in cost of sales

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21. FINANCE COSTS – NET

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Finance income		
– Interest income on bank deposits	**237**	590
Finance costs		
– Interest expenses on bank borrowings	**(193)**	(3,609)
– Interest expenses on advances from third parties and related parties (Note15)	**(10,015)**	—
– Interest expenses on bonds payables	**(409)**	(253)
– Net foreign exchange losses on cash and cash equivalents, borrowings and bonds payable	**(10)**	(510)
– Net foreign exchange losses on monetary receivables and payables	**(905)**	967
Interest expenses on lease liabilities	**(2,283)**	—
Net finance costs – net	**(13,578)**	(2,815)

22. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
PRC enterprise and withholding income taxes		
– Current income tax - PRC income tax	**(62)**	(346)

(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 for the six months ended 30 June 2019 (2018: Nil).

(b) PRC ENTERPRISE INCOME TAX

Under the Corporate Income Tax Law of the PRC, the enterprise income tax rate applicable to the subsidiaries located in mainland China is 25% (2018: 25%).

23. EARNINGS/(LOSS)PER SHARE

(a) BASIC

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

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Loss attributable to equity holders of the Company (RMB'000)	**(30,323)**	(87,154)
Weighted average number of ordinary shares in issue (thousand)	**2,537,960**	2,537,960
Basic loss per share (RMB cents)	**1.19**	3.43

(b) DILUTED

The computation of diluted loss per share for the six months ended 30 June 2019 and 2018 did not the exercise of share options and settlement in ordinary shares for the other liabilities arising from the contingent consideration arrangements in prior years as their assumed exercise would decrease the loss per share for both of the six months ended 30 June 2019 and 2018.

24. INTERIM DIVIDENDS

No interim dividend was declared during the six months ended 30 June 2019 (31 December 2018: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the six months ended 30 June 2019.

25. CAPITAL COMMITMENTS

As at 30 June 2019 and 31 December 2018, capital commitments in respect of the Group's investment in an associate are as follows:

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
(i) Capital commitments in respect of its equity investment in Nanjing Ruihu Electronic Commercial Technology Co., Ltd. (Note a)	**98,000**	98,000
(ii) Capital commitments in respect of purchase of 10% equity interest in Jiangsu Huiyin Electronic Commence Co. Ltd. from a non-controlling interest shareholder, 江蘇瑞華投資合夥企業(有限合夥) (Note b)	**—**	75,750
	98,000	173,750

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25. CAPITAL COMMITMENTS *(Continued)*

Note:

(a) On 5 December 2016, Yangzhou Huiyin together with a third-party company set up Nanjing Ruihu Electronic Commercial Technology Co., Ltd. (南京瑞虎電子商務科技有限公司)("Ruihu") in Nanjing, Jiangsu Province, the PRC. Ruihu has registered capital of RMB200,000,000 of which Yangzhou Huiyin has agreed to subscribe for 49% of the equity interest.

The Group has not contributed any capital into Ruihu since its establishment. Ruihu also does not have any business activity since its incorporation.

Pursuant to the initial strategy agreement made between Ruihua (an independent equity investor) and the Group before establishment of Ruihu, the Group had agreed with Ruihua to make sure that the investment was safe and Ruihua could receive at least not less than the investment cost in respect of its return on investment.

In late December 2016, the Group entered into a supplementary agreement with an equity investor of Ruihu, Ruihua. The former director, Mr. Cao Kuanping, was also a party to the supplementary agreement. Pursuant to the supplementary agreement, Ruihua has a right to request the Group to purchase its 51% equity interest in any of the years from 2017 to 2020 at a purchase price equivalent to the investment cost made by Ruihua plus 8% per annum if Ruihu could not meet the target profit and certain requirements in any of the years from 2017 to 2019 as set out in the supplementary agreement. This right is derivative financial instrument. The initial fair value of the derivative of approximately RMB33,199,000 was recognised in 2016 and it was remeasured at fair value at the end of each reporting period with a loss/gain on fair value change recognised in profit or loss.

(b) The Group had also entered into a transfer agreement about equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. in 2017. Jiangsu Huiyin Electronic Commerce Co., Ltd. is a subsidiary of the Group. Pursuant to the transfer agreement, the Group agreed to purchase 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. from a non-controlling interest, 蘇州瑞華投資合夥企業 (有限合夥), at a price of approximately RMB75,750,000. The transfer of 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. would be effective upon payment of transfer price pursuant to the transfer agreement. Both parties signed an agreement on 3 January 2019, and unanimously agreed to release such obligation.

26. RELATED PARTY TRANSACTIONS

Apart from the material transactions and balances with related parties as disclosed in the condensed consolidated interim financial statements, the Group has entered into the following material transactions with its related parties together with the balances with them at the end of the reporting:

(a) TRANSACTIONS WITH RELATED PARTIES

During the year, the Group entered into the following transactions with related parties:

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
– Rental expenses to the former Chairman		
Mr. Cao Kuanping	—	1,872

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 the related parties.

Two property leasing contracts, one for office use and the other for retail purpose, were entered into by the Group with Mr. Cao Kuanping in 2013 for a term of 3 years from 20 January 2013 to 19 January 2016. These two lease contracts are extended to 19 January 2019. The aggregate annual rents payable by the Group to Mr. Cao Kuanping under the two property leasing contracts amounting to approximately RMB nil (31 December 2018: RMB3,672,400).

26. RELATED PARTY TRANSACTIONS *(Continued)*

(b) KEY MANAGEMENT COMPENSATION

	Unaudited Six months ended 30 June 2019 RMB'000	Unaudited Six months ended 30 June 2018 RMB'000
Salaries and other allowances	**1,398**	1,780
Social security costs	**137**	125
Other benefits	**16**	1,458
	1,551	3,363

(c) SIGNIFICANT BALANCES WITH RELATED PARTIES AT THE END OF THE REPORTING PERIOD

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Advances from related parties		
– Ruihu, equity investor of an associate of the Group	**—**	3,900
Deposit for subscription of ordinary shares of the Company		
– Noble Trade International Holdings Limited (Substantial shareholder of the Company)	**2,930**	2,930
– Mr. Cao Kuanping	**—**	152
Salaries, bonuses and welfares payable to directors:		
– Ms. Liu Simei	**150**	300
– Mr. Xin Kexia	**400**	396
– Mr. Zhao Jinyong	**44**	256
– Mr. Chen Rui	**44**	112
– Mr. Fung Tak Choi	**44**	—
	682	1,064

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For the six months ended 30 June 2019

27. LITIGATION AND CONTINGENCIES

During the year ended 31 December 2017, Jiangsu Huiyin Electronics Commerce Co. Ltd., a subsidiary of the Company, obtained one month borrowing of RMB100 million from 江蘇瑞華投資控股集團有限公司("Ruihua"). In August 2018, Ruihua initiated a legal claim against Jiangsu Huiyin Electronics Commerce Co. Ltd. for a total amount of RMB18,038,000, including principal of RMB15,730,000 and overdue charge of RMB2,308,000. As at 31 December 2018, the outstanding amount due to Ruihua was approximately RMB 3,900,000, including principal of approximately RMB3,315,000 and accrued penalty charge of RMB585,000 (2017: RMB 28,150,000, including principal of RMB27,800,000 and accrued penalty of RMB350,000).

On 3 April 2019, Ruihua also withdrew the above claims and litigation against the Group about the above borrowing provided that the Group would settle the outstanding balance and legal costs arising from the litigation according to mutual agreement made with Ruihua.

On 27 March 2019, the Group signed a compromise agreement amongst Jiangsu Ruihua Investment Holding Group CO., Ltd. ("Ruihua") and 蘇州瑞華投資合夥企業(有限合夥) ("瑞華合夥") (collectively referred as "Ruihua Enterprises") for settlement of the matters regarding (a) the financial liabilities arising from the derivative financial instruments; and (b) the Group's capital commitment to purchase 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd. from瑞華合夥.

Pursuant to the compromise agreement, the settlement would be made as follows:

Ruihua Enterprises withdrew the rights to sue the Group for settlement of the liabilities arising from the matters as described in (a) and (b) above to the extent of approximately RMB122 million (including interest and default penalty) upon the date of signing the compromise agreement amongst all parties to the agreement on the ground that:

I) The Group has to pay Ruihua Enterprises a sum of RMB12,000,000 divided by 3 instalments;

II) In case Ruihua Enterprises unable to recover RMB72,000,000 in full from the former Chairman, Mr. Cao Kuanping on or before 31 December 2019 arising from the matters as mentioned in (a) and (b) above, the Group has to pay the remaining shortage balance to Ruihua on or before 30 June 2020.

III) Certain land use right and building of the Group with the aggregate carrying amount of approximately RMB37,011,000 as at 31 December 2018 to be pledged to secure the obligations of the Group under this compromise agreement.

In case the Group unable to fulfil the above requirements as set out in the compromise agreement, Ruihua Enterprises have a right to request the Group to settle the matters as described in (a) and (b) above based on the original amount of approximately RMB 122 million plus any further default penalty which is 0.05% of the outstanding balance.

On 8 April 2019, approximately RMB60,049,000 of the properties of the former Chairman, Mr. Cao Kuanping, were seized and frozen by the PRC court in respect of claims and litigations made by Ruihua against Mr. Cao Kuanping arising from the aforesaid repurchase request from Ruihua Enterprises in respect of 51% equity interest in Ruihu and 10% equity interest in Jiangsu Huiyin Electronic Commerce Co., Ltd.