# Jiyi Household International Holdings Limited
# 集一家居國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1495)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "**Board**") of directors (the "**Directors**") of Jiyi Household International Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred as the "**Group**") for the six months ended 30 June 2018 (the "**Reporting Period**" or "**FY2018**"), together with the comparative figures for the corresponding period in 2017 (the "**Prior Period**" or "**FY2017**") as follows:

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2018*

| | *Notes* | **Six months ended 30 June** **2018** ***RMB'000*** **(Unaudited)** | 2017 *RMB'000* (Unaudited) |
|---|---|---|---|
| Revenue | *3* | **262,972** | 178,786 |
| Cost of sales | *3* | **(234,357)** | (146,331) |
| **Gross profit** | | **28,615** | 32,455 |
| Selling expenses | | **(8,722)** | (10,016) |
| Administrative expenses | | **(6,749)** | (8,944) |
| Other income and gains – net | | **–** | 80 |
| **Operating profit** | *4* | **13,144** | 13,575 |
| Finance income | | **54** | 99 |
| Finance expenses | | **(2,819)** | (3,654) |
| Finance costs – net | | **(2,765)** | (3,555) |
| **Profit before income tax** | | **10,379** | 10,020 |
| Income tax expense | *5* | **(3,365)** | (3,218) |
| **Profit for the period all attributable to equity holders of the Company** | | **7,014** | 6,802 |
| **Earnings per share attributable to equity holders of the Company for the period** | | | |
| – Basic and diluted *(RMB cents)* | *6* | **1.62** | 1.57 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Profit for the period** | **7,014** | 6,802 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss* | | |
| Currency translation differences | **115** | (1,908) |
| **Total comprehensive income for the period, all attributable to equity holders of the Company** | **7,129** | 4,894 |

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

*As at 30 June 2018*

| | Notes | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Audited) |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **69,673** | 72,515 |
| Land use right | | **2,778** | 2,823 |
| Intangible assets | | **458** | 484 |
| Deferred income tax assets | | **2,256** | 1,750 |
| | | **75,165** | 77,572 |
| **Current assets** | | | |
| Inventories | | **68,823** | 38,127 |
| Due from customers on construction contracts | *8* | **70,896** | 51,517 |
| Trade and other receivables | *9* | **268,026** | 247,284 |
| Restricted cash | | **–** | 300 |
| Cash and cash equivalents | | **63,311** | 92,970 |
| | | **471,056** | 430,198 |
| **Total assets** | | **546,221** | 507,770 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | **35,638** | 35,638 |
| Share premium | | **243,832** | 243,832 |
| Other reserves | | **(53,185)** | (53,300) |
| Retained earnings | | **115,768** | 108,754 |
| **Total equity** | | **342,053** | 334,924 |

| | Notes | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **55,156** | 71,383 |
| Due to customers on construction contracts | *8* | **29,559** | 3,240 |
| Bank borrowings | | **107,200** | 88,200 |
| Current income tax liabilities | | **12,253** | 10,023 |
| | | **204,168** | 172,846 |
| **Total liabilities** | | **204,168** | 172,846 |
| **Total equity and liabilities** | | **546,221** | 507,770 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*For the six months ended 30 June 2018*

## 1. General information

The Company was incorporated in the Cayman Islands on 2 February 2015 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Room 1405, 14/F., Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong.

The Company is an investment holding company and the Group is principally engaged in the business of sale and distribution of building and home improvement materials and furnishings and provision of interior design and engineering services in the People's Republic of China (the "**PRC**"). The controlling shareholder of the Group is Xinling Limited, a company incorporated in the British Virgin Islands ("**BVI**") which is wholly-owned by Ms. Hou Wei.

The condensed consolidated interim financial information is presented in thousands of Renminbi ("**RMB**"), unless otherwise stated.

## 2. Significant accounting policies and basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRS**").

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

New and amended standards, effective for the financial year beginning on or after 1 January 2018 are as follows:

| | |
|---|---|
| Amendments to HKAS 28 | "Investments in Associates and Joint Ventures"; |
| Amendments to HKAS 40 | "Transfer of Investment Property"; |
| Amendments to HKFRS 1 | "First time adoption of HKFRS"; |
| Amendments to HKFRS 2 | "Classification and Measurement of Share-Based Payment Transactions"; |
| Amendments to HKFRS 4 | "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts"; |
| HKFRS 9 | "Financial Instruments"; |
| HKFRS 15 | "Revenue from Contracts with Customers"; |
| HK(IFRIC)-Int 22 | "Foreign Currency Transactions and Advance Consideration". |

The Group has adopted the following new standards for the first time that are relevant to the Group and are effective for the Reporting Period.

***HKFRS 9 "Financial Instruments"***

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

There is no impact on the Group's accounting for financial assets and liabilities, as the new requirements only affect the accounting for financial assets and liabilities that are designated at fair value and the Group does not have any such assets and liabilities. Accordingly, the new guidance does not have a significant impact on the classification and measurement of its financial assets and liabilities.

The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group does not hold any hedging instruments, accordingly, adoption of HKFRS 9 does not have a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

Based on the current assessment, the Group considers that the initial application of HKFRS 9 does not have a significant impact on the Group's consolidated financial statements.

***HKFRS 15 "Revenue from Contracts with Customers"***

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

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Based on the current assessment, the Group considers that the adoption of HKFRS 15 does not have any material impact on the Group's condensed consolidated financial statements based on the existing business model of the Group.

The Group has not early adopted any new standards, amendments and interpretations that have been issued but are not effective for the financial years beginning on 1 January 2018.

**3. Segment information**

The chief operating decision-maker (the "**CODM**") has been identified as the chief executive officer of the Company. The chief executive officer reviews the Group's internal reporting in order to assess performance and allocate resources. The chief executive officer has determined the operating segments based on these reports. The chief executive officer considers the business from products and services perspective, and determines that the Group has the following operating segments:

(i) Sale and distribution of merchandise

(ii) Provision of interior design and engineering services

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The Company currently does not allocate assets and liabilities to its segments, as the CODM does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Company does not report a measure of total assets or total liabilities for each reportable segment.

The segment information provided to the CODM for the reportable segments for the Reporting Period is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Segment Revenue** | | |
| – Sale and distribution of merchandise | | |
| Total segment revenue | **168,518** | 158,958 |
| Inter-segment revenue | **(57,362)** | (16,282) |
| Revenue from external customers | **111,156** | 142,676 |
| – Provision of interior design and engineering services | | |
| Total segment revenue | **151,816** | 38,924 |
| Inter-segment revenue | **–** | (2,814) |
| Revenue from external customers | **151,816** | 36,110 |
| | **262,972** | 178,786 |

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Segment Cost** | | |
| – Sale and distribution of merchandise | **99,842** | 114,337 |
| – Provision of interior design and engineering services | **134,515** | 31,994 |
| | **234,357** | 146,331 |

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Segment gross profit** | | |
| – Sale and distribution of merchandise | **11,314** | 28,339 |
| – Provision of interior design and engineering services | **17,301** | 4,116 |
| | **28,615** | 32,455 |

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Segment gross profit** | **28,615** | 32,455 |
| Other income and other gains – net | **–** | 80 |
| Selling expenses | **(8,722)** | (10,016) |
| Administrative expenses | **(6,749)** | (8,944) |
| Finance costs – net | **(2,765)** | (3,555) |
| Income tax expense | **(3,365)** | (3,218) |
| **Profit for the period** | **7,014** | 6,802 |

During the Reporting Period, all revenues of the Group were derived from the PRC.

Non-current assets, other than deferred income tax assets, are mainly located in the PRC as at 30 June 2018 (31 December 2017: Same).

During the Reporting Period, there were two (2017: one) external customers contributed over 10% of the total revenue of the Group. The revenues derived from these customers during the Reporting Period were as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Provision of interior design and engineering services** | | |
| – Customer A | **71,352** | – |
| – Customer B | **37,383** | – |
| **Sale and distribution of merchandise** | | |
| – Customer B | **13,418** | – |
| – Customer C | **–** | 21,393 |

Breakdown of the revenue by products or service is as follow:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Segment Revenue** | | |
| Sale and distribution of merchandise | | |
| – Building materials | **140,554** | 128,576 |
| – Home improvement materials | **19,239** | 20,370 |
| – Furnishings | **8,725** | 10,012 |
| | **168,518** | 158,958 |
| Provision of interior design and engineering services | **151,816** | 38,924 |
| Elimination | **(57,362)** | (19,096) |
| | **262,972** | 178,786 |

**4. Operating profit**

An analysis of the amounts presented as operating items in the financial information is given:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Operating items | **12,473** | 13,529 |
| Provision for/(reversal of) write-down of inventories | **60** | (57) |
| Provision for impairment of trade receivables | **611** | 103 |
| **Operating profit** | **13,144** | 13,575 |

## 5. Income tax expense

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | **3,871** | 3,550 |
| Deferred income tax | **(506)** | (332) |
| | **3,365** | 3,218 |

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Group as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **10,379** | 10,020 |
| Tax calculated at the tax rate of 25% | **2,595** | 2,505 |
| Tax losses for which no deferred income tax asset was recognised | **89** | 106 |
| Tax exemptions | **528** | 584 |
| Expenses not deductible for tax purposes | **153** | 23 |
| | **3,365** | 3,218 |

***Cayman Islands income tax***

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands and accordingly, is exempted from the Cayman Islands income tax.

***BVI income tax***

The Company's subsidiary in the BVI was incorporated under International Business Companies Act of the BVI and, accordingly, is exempted from the BVI income tax.

***Hong Kong profits tax***

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the six months ended 30 June 2018 (FY2017: 16.5%) on the estimated assessable profit for the period. No Hong Kong profits tax has been provided for as there was no business operation that is subject to Hong Kong profits tax during the Reporting Period.

***PRC enterprise income tax ("EIT")***

The entities established in the PRC are subject to EIT. According to the EIT law effective from 1 January 2008, all PRC enterprises are subject to a standard EIT rate of 25%.

***PRC withholding tax ("WHT")***

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant WHT rate will be reduced from 10% to 5%. During the period, the Directors reassessed the dividend policy of the major subsidiary of the Company established in the PRC, Guangdong Jiyi Household Building Materials Chain Co., Ltd（廣東集一家居建材連鎖有限公司）("**Jiyi Household**"), based on the Group's current business plan and financial position, no retained earnings as of 30 June 2018 generated by Jiyi Household would be distributed to its non-PRC registered intermediate holding company and as such, no deferred tax liability has been provided by the Group for the earnings expected to be retained by Jiyi Household in the PRC and not to be remitted out of the PRC in the foreseeable future.

## 6. Earnings per share

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| Profit attributable to equity holders of the Company *(RMB'000)* | **7,014** | 6,802 |
| Weighted average number of ordinary shares in issue *(thousands of shares)* | **432,000** | 432,000 |
| Basic earnings per share *(RMB cents)* | **1.62** | 1.57 |

For the six months ended 30 June 2018, diluted earnings per share was the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at period end date.

## 7. Dividend

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2018.

## 8. Due from/(to) customers on construction contracts

| | As at | |
|---|---|---|
| | **30 June 2018** | 31 December 2017 |
| | ***RMB'000*** | *RMB'000* |
| Due from customers on construction contracts | **70,896** | 51,517 |
| Due to customers on construction contracts | **(29,559)** | (3,240) |
| At end of the period | **41,337** | 48,277 |
| Contract costs incurred plus recognised profit to date | **370,446** | 218,630 |
| *Less:* Progress billings received and receivable | **(329,109)** | (170,353) |
| At end of the period | **41,337** | 48,277 |

All amounts due from customers on construction contracts were not considered impaired and there was no concentration of credit risk with respect to these balances.

## 9. Trade and other receivables

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables due from third parties | **175,609** | 180,902 |
| Trade receivables due from a related party | **6,661** | 6,866 |
| *Less:* allowance for impairment of trade receivables | **(1,966)** | (1,355) |
| Trade receivables, net | **180,304** | 186,413 |

The credit period granted to customers is between 0 to 360 days. The ageing analysis of the trade receivables from the date of sales is as follows:

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Up to 6 months | **111,696** | 124,512 |
| 6 to 12 months | **66,195** | 59,440 |
| Over 12 months | **4,379** | 3,816 |
| | **182,270** | 187,768 |

As at 30 June 2018, trade receivables of RMB2,413,000 (31 December 2017: RMB2,461,000) was past due but not impaired.

These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Over 12 months | **2,413** | 2,461 |

As at 30 June 2018, trade receivables of RMB1,966,000 (31 December 2017: RMB1,355,000) were impaired. The amount of the provision was RMB1,966,000 as at 30 June 2018 (31 December 2017: RMB1,355,000).

The ageing analysis of these trade receivables is as follows:

| | As at | |
|---|---|---|
| | **30 June 2018** | 31 December 2017 |
| | ***RMB'000*** | *RMB'000* |
| Over 12 months | **1,966** | 1,355 |

## 10. Trade and other payables

The ageing analysis of trade payables based on invoice date were as follows:

| | As at | |
|---|---|---|
| | **30 June 2018** | 31 December 2017 |
| | ***RMB'000*** | *RMB'000* |
| Up to 3 months | **14,655** | 18,373 |
| 3 to 6 months | **17,707** | 5,013 |
| 6 to 12 months | **2,818** | 4,281 |
| Over 12 months | **5,689** | 3,767 |
| | **40,869** | 31,434 |

The credit period secured by the Group's suppliers ranges from 0 to 180 days.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW

**Revenue by business operations**

The Group is a well-established and integrated building and home improvement materials and furnishings supplier and interior design and engineering services provider in the PRC. The Group is mainly engaged in the sale and distribution of merchandise and the provision of services.

The following table sets forth the breakdown of revenue by business operations for the Reporting Period with the comparative figures of FY2017:

| | **For the six months ended 30 June** | | |
|---|---|---|---|
| | **2018** | 2017 | Changes |
| | ***RMB'000*** | *RMB'000* | *%* |
| Sale and distribution of merchandise | | | |
| – Building materials | **96,192** | 115,022 | (16.4) |
| – Home improvement materials | **8,003** | 18,242 | (56.1) |
| – Furnishings | **6,961** | 9,412 | (26.0) |
| | **111,156** | 142,676 | (22.1) |
| Provision of services | **151,816** | 36,110 | 320.4 |
| **Total** | **262,972** | 178,786 | 47.1 |

Total revenue of the Group increased by approximately RMB84.2 million or approximately 47.1% from approximately RMB178.8 million for the Prior Period to approximately RMB263.0 million for the Reporting Period. Such increase was mainly driven by the significant growth in the revenue generated from the business of provision of services; and was partially offset by the decrease in revenue generated from the business of sale and distribution of merchandise during the Reporting Period.

**Revenue from sale and distribution of merchandise**

Revenue of the Group from sale and distribution of merchandise, comprising (i) sale of building materials; (ii) sale of home improvement materials; and (iii) sale of furnishings, decreased by approximately RMB31.5 million or approximately 22.1% from approximately RMB142.7 million for the Prior Period to approximately RMB111.2 million for the Reporting Period. Sale of building materials, home improvement materials and furnishings decreased by approximately RMB18.8 million, RMB10.2 million and RMB2.5 million respectively during the Reporting Period. The sale of steel represented approximately 64.1% (FY2017: 25.0%) and 55.5% (FY2017: 20.2%) of the revenue generated from sale of building materials and the business of sale and distribution of merchandise respectively during the Reporting Period.

The decline in performance of this business was mainly due to the keen market and price competition and the Group's development focus has been completely transformed into the provision of engineering services.

**Revenue from provision of services**

The revenue from provision of services increased significantly by approximately RMB115.7 million or approximately 320.4% from approximately RMB36.1 million for the Prior Period to approximately RMB151.8 million for the Reporting Period. In light of the number and size of corporate projects secured by the Group at the moment, the business of provision of services will probably replace the business of sale of and distribution of merchandise to become the core business of the Group in 2018 and the Group feels confident that the growth of this business will continue in the coming few years.

**Gross profit and gross profit margin**

The following table sets forth the breakdown of gross profit and gross profit margin by the Group's business segments for the Reporting Period with the comparative figures of FY2017:

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Gross profit** | **Gross profit margin** | Gross profit | Gross profit margin |
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Sale and distribution of merchandise | | | | |
| – Building materials | **7,556** | **7.9** | 17,440 | 15.2 |
| – Home improvement materials | **2,166** | **27.1** | 7,195 | 39.4 |
| – Furnishings | **1,592** | **22.9** | 3,704 | 39.4 |
| | **11,314** | **10.2** | 28,339 | 19.9 |
| Provision of services | **17,301** | **11.4** | 4,116 | 11.4 |
| **Total** | **28,615** | **10.9** | 32,455 | 18.2 |

Although the Group's revenue increased by approximately RMB84.2 million or approximately 47.1% from approximately RMB178.8 million for the Prior Period to approximately RMB263.0 million for the Reporting Period, the Group's overall gross profit decreased by approximately RMB3.9 million or approximately 11.8% from approximately RMB32.5 million for the Prior Period to approximately RMB28.6 million for the Reporting Period. As a result, the Group's overall gross profit margin decreased from 18.2% for the Prior Period to 10.9% for the Reporting Period, which was mainly due to (i) the decrease in gross profit margin of the business of sale and distribution of merchandise and such decrease was due to the decrease in average selling price of merchandise because of the keen market and price competition and the change in product mix; and (ii) the increase in proportion of revenue generated from provision of services during the Reporting Period and the gross profit margin of provision of services was generally lower than that of sale and distribution of merchandise.

The gross profit margin of sale and distribution of merchandise dropped from 19.9% for the Prior Period to 10.2% for the Reporting Period, which was mainly due to (i) the increase in proportion of revenue generated from sale of building materials which entails relatively lower gross profit margin within this business segment; (ii) the significant increase in proportion of sale of steel and the gross profit margin of sale of steel was only around 6.7%; and (iii) the decrease in the average selling price of merchandise because of the keen market and price competition.

The gross profit margin of provision of services was 11.4% for the Reporting Period, which was comparable to the gross profit margin of the Prior Period. The existing strategy of the Group is to focus on increasing the project size and volume in order to expand the Group's market share in this business. Although this strategy would weaken the gross profit margin in the early stage of business development, the Group believed that it will help to secure more sizeable projects with higher gross profit margin, such as Public-Private Partnership ("**PPP**") project, in the near future.

**Selling expenses**

The Group's selling expenses dropped by approximately RMB1.3 million or approximately 12.9% from approximately RMB10.0 million for the Prior Period to approximately RMB8.7 million for the Reporting Period. The decrease was mainly due to the decrease in staff costs by approximately RMB0.9 million during the Reporting Period. The decrease in staff costs was mainly due to the reduction in headcount of store operation function starting from the second half of 2017, which was to tie in with the Group's business plan to develop the business of interior design and engineering services.

**Administrative expenses**

The Group's administrative expenses decreased by approximately RMB2.2 million or approximately 24.5% from approximately RMB8.9 million for the Prior Period to approximately RMB6.7 million for the Reporting Period. The decrease was mainly due to the decrease in staff costs of approximately RMB1.1 million. The decrease in staff costs was mainly due to the reduction in headcount of logistics and warehousing departments as the Group has outsourced the logistics and warehousing functions since the last quarter of 2017.

**Finance costs – net**

The Group's net finance costs decreased by approximately RMB0.8 million or approximately 22.2% from approximately RMB3.6 million in the Prior Period to approximately RMB2.8 million in the Reporting Period, which was mainly due to the decrease in the Group's average bank borrowings during the Reporting Period.

**Profit for the period**

As a result of the foregoing, the Group's profit for the period slightly increased by approximately RMB0.2 million or approximately 3.1% from approximately RMB6.8 million for the Prior Period to approximately RMB7.0 million for the Reporting Period.

## PROSPECTS

The expansion of the Group's business of provision of interior design and engineering services provided a force for the growth of the Group's revenue. However, the revenue and gross profit margin of the business of sale and distribution of merchandise were weakened by the keen market and price competition and the change of the Group's business strategy. Therefore, the Group's profit for the Reporting Period was just comparable to the Prior Period.

The Group's current business strategy is to focus on the development of the engineering services business, which will probably replace the business of sale and distribution of merchandise as the core business of the Group in 2018. The gross profit margin of this business was still at a relatively low level, which was mainly due to the Group intended to obtain more sizeable corporate projects in order to upgrade its Construction Enterprise Qualification and expand its market share of this business. The Group is now actively seeking its first PPP project from the PRC government. The Group believes that the overall gross profit margin of the Group will be improved and the reputation of the Group within this industry will be enhanced if a PPP project can be secured.

The Company announced a proposed rights issue to raise approximately HK$103.68 million before expenses, on the basis of two rights shares for every five existing shares in April 2018 ("**Rights Issue**"), which offered existing shareholders a fair and equal opportunity to participate in the Company's long-term development without having their shareholding diluted. The Rights Issue was fully underwritten by Xinling Limited ("**Xinling**"), the Company's controlling shareholder. This demonstrated Xinling's confidence in and commitment to the Company's future and growth prospects. The net proceeds from the Rights Issue will be mainly used as funds for project costs for the interior design and engineering work for several projects in progress in Meizhou, Guangdong Province, the PRC. The Rights Issue will benefit the Company and shareholders as a whole, and will serve as a cornerstone for future development.

The Group will continue to build on from the existing businesses, and will actively look for new investment opportunities to enhance the Group's profitability and the return of the shareholders.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 30 June 2018, the Group had a total cash and bank balances of approximately RMB63.3 million (31 December 2017: RMB93.0 million) mainly denominated in Renminbi and Hong Kong Dollars. The decrease in total cash and bank balances was mainly due to the net cash used in operating activities of approximately RMB48.0 million, which was partially offset by the increase in bank borrowings of RMB19 million during the Reporting Period.

At as 30 June 2018, the Group had net current assets of approximately RMB266.9 million, as compared to approximately RMB257.4 million as at 31 December 2017.

## BORROWINGS AND PLEDGE OF ASSETS

As at 30 June 2018, the Group had unutilised banking facilities for short term financing of approximately RMB20.0 million (31 December 2017: RMB108.0 million) and total bank borrowings of approximately RMB107.2 million (31 December 2017: RMB88.2 million).

As at 30 June 2018, the bank borrowings of the Group were secured by buildings and land use right of the Group at the carrying amounts of approximately RMB39.4 million (31 December 2017: RMB39.4 million) and RMB2.8 million (31 December 2017: RMB2.8 million) respectively.

## CAPITAL EXPENDITURE

The Group's capital expenditure for the Reporting Period amounted to approximately RMB1.1 million, which was mainly for the purchasing and constructing of the Group's property, plant and equipment.

## FINANCIAL RATIO

| | As at | |
|---|---|---|
| | **30 June 2018** | 31 December 2017 |
| Current ratio[(1)] | **2.3** | 2.5 |
| Quick ratio[(2)] | **2.0** | 2.3 |
| Gearing ratio *(%)*[(3)] | **31.3** | 26.3 |
| Net debt to equity ratio *(%)*[(4)] | **12.8** | (1.5) |

(1) *Current ratio is calculated as the total current assets divided by the total current liabilities.*

(2) *Quick ratio is calculated as total current assets less inventories and divided by total current liabilities.*

(3) *Gearing ratio is calculated as the total debt divided by total equity and multiplied by 100%.*

(4) *Net debt to equity ratio is calculated as total borrowings net of cash and cash equivalents and restricted cash, and divided by total equity and multiplied by 100%.*

## FOREIGN EXCHANGE EXPOSURE

The Group mainly transacts and recognises its revenue in Renminbi and also incurs cost in Hong Kong dollars and Renminbi. The Group is exposed to foreign exchange risk with respect mainly to Hong Kong dollars which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Hong Kong dollars and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2018 (31 December 2017: Nil).

## CAPITAL COMMITMENTS

The Group had no significant outstanding capital commitment as at 30 June 2018 (31 December 2017: Nil).

## EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2018, the Group had a total number of 137 employees (30 June 2017: 232) and the total staff costs, including Directors' remuneration, amounted to approximately RMB5.4 million for the Reporting Period (FY2017: RMB7.0 million). The decrease was a combined result of (i) the reduction in headcount starting from the second half year of 2017, in particular the headcount of store operation function, which was to tie in with the Group's business plan to develop the business of interior design and engineering services; (ii) the logistics and warehousing functions of the Group has been outsourced since the last quarter of 2017; and (iii) the salary increment of employees of the business segment of engineering services during the Reporting Period.

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees. The Group conducts induction training for all of its new employees and on-going training from time to time during their employment. The nature of training offered depends on their specific field of operation.

The objective of the Group's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration paid to its employees (including Directors and senior management), the following factors are considered:

- workload, responsibility and job complexity;
- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- market rates and changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") throughout the Reporting Period.

## EVENT AFTER THE REPORTING PERIOD

Following the Company's announcement regarding the results of the Rights Issue on 23 July 2018, dealings in the rights shares, in the fully-paid form, commenced on the Stock Exchange at 9:00 a.m. on 25 July 2018.

Details of the Rights Issue are set out in the Company's announcements dated 25 April 2018, 26 April 2018, 16 May 2018, 24 May 2018, 25 May 2018, 14 June 2018, 15 June 2018 and 23 July 2018, circular dated 25 May 2018 and Rights Issue documents dated 28 June 2018.

## DIVIDEND

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2018.

## COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Listing Rules. During the Reporting Period, the Company has complied with the code provisions under the CG Code, save and except for the deviation to code provision A.2.1 below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairlady and chief executive officer of the Company are held by Ms. Hou Wei who has extensive experience in the industry. The Board believes that Ms. Hou can provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The Board also considers that the current structure of vesting the roles of chairlady and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

## COMPLIANCE WITH MODEL CODE

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company's securities. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Reporting Period. Relevant employees who are likely to be in possession of unpublished inside information of the Group are also subject to compliance with written guidelines or no less exacting terms than the Model Code during the Reporting Period.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## REVIEW OF INTERIM RESULTS

As at 30 June 2018 and the date of this announcement, the Audit Committee comprised three members, namely, Mr. Ye Yihui (chairman of the Audit Committee), Mr. Ho Hin Yip and Mr. Hou Lianchang and all of them are independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of the interim results of the Group for the six months ended 30 June 2018 and recommended its adoption by the Board.

## PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.jiyihousehold.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be published on the above websites and despatched to the shareholders of the Company on or before 30 September 2018.

By Order of the Board of
**Jiyi Household International Holdings Limited**
**Hou Wei**
*Chairlady*

Hong Kong, 30 August 2018

*As at the date of this announcement, Ms. Hou Wei and Mr. Liu Xianxiu are the executive Directors, Mr. Hou Bo and Mr. Lam On Tai are the non-executive Directors, and Mr. Ye Yihui, Mr. Ho Hin Yip and Mr. Hou Lianchang are the independent non-executive Directors.*