HUIYIN

Huiyin Household Appliances (Holdings) Co., Ltd.

汇银家电（控股）有限公司

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

Stock Code: 1280


# 2010
# Interim Report

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Cao Kuanping
Mr. Mo Chihe
Mr. Mao Shanxin
Mr. Wang Zhijin

## NON-EXECUTIVE DIRECTORS

Mr. Li Jung-Hsing
Mr. Ke Shifeng

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Fei
Mr. Zhou Shuiwen
Mr. Tam Chun Chung

## COMPANY SECRETARY

Ms. Ngai Kit Fong ACIS, ACS

## AUDIT COMMITTEE

Mr. Tam Chun Chung *(Chairman)*
Mr. Li Fei
Mr. Zhou Shuiwen

## REMUNERATION COMMITTEE

Mr. Zhou Shuiwen *(Chairman)*
Mr. Cao Kuanping
Mr. Li Fei

## NOMINATION COMMITTEE

Mr. Li Fei *(Chairman)*
Mr. Mo Chihe
Mr. Zhou Shuiwen

## AUTHORISED REPRESENTATIVES

Mr. Cao Kuanping
Ms. Ngai Kit Fong

## REGISTERED OFFICE

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4th Floor
P.O. Box 2804
George Town
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Cayman Islands

## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

Huiyin International Commercial Building
No. 277 Wenchang Zhong Road
Yangzhou
Jiangsu Province
PRC

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

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

## AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

## COMPLIANCE ADVISER

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKERS

Bank of Communications (Yangzhou Branch)
No. 2 Wenhe Bei Lu
Yangzhou City
Jiangsu Province
PRC

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

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

China Citic Bank (Yangzhou Branch)
No. 171 Weiyang Lu
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

### Continued to Benefit from State Policies

As the impact of the financial crisis on China's economy gradually subsided, and beneficial fiscal policy and economic stimulus measures were adopted by the Chinese Government, domestic consumption and consumer purchasing power picked up and spurred an economic rebound in the first half of 2010. Meanwhile, in line with the Chinese Government's objective to stimulate domestic consumption and promote energy efficiency, on 3 June 2010, the Ministry of Commerce, Ministry of Finance and Ministry of Environmental Protection of the PRC jointly announced the《家電以舊換新推廣工作方案》(Work Program for Home Appliances Replacement Scheme) to extend the Scheme to 19 more provinces and cities on top of the 9 pilot provinces and cities, and lengthen the implementation period to 31 December 2011. Of the regions covered by our network, Jiangsu is a pilot province/city, whereas Anhui is a newly added province/city. On 1 January 2010, the Ministry of Commerce, Ministry of Finance and Ministry of Industry and Information Technology, etc. resolved to raise the price ceiling on 12 categories of products in 2010. Price ceilings on color TV sets and mobile phones have therefore increased by one-fold, while the other 10 categories, including refrigerators and air-conditioners, have increased by 25%-75%. The implementation of the policy is set to release the potential of the rural household appliance market, thereby securing sustainable growth and development for the entire household appliance market.

The home appliance industry is one of the fastest growing sectors in China. According to the latest statistics released by the Ministry of Industry and Information Technology of the PRC, sales of the major categories of products for the first quarter of 2010 saw a rapid growth compared with the corresponding period last year; of which, sales of home appliances registered a significant increase of 24.2% year-on-year, and an increase of 30.8 percentage points over the corresponding period last year. In addition, the Ministry of Commerce of the PRC announced that cumulative sales volume under the Home Appliance Subsidy Program for Rural Areas for the first half of 2010 reached 32.518 million units, representing a 2.4-fold year-on-year increase; sales also saw a strong growth of 3.2-fold year-on-year, at RMB67,800 million, surpassing last year's annual sales of RMB64,700 million. Industry indices in the domestic market all indicated that China's home appliance industry is in a strong-up cycle. As the population's purchasing power continues to grow, together with favourable factors such as the robust domestic demand, all these shall bring about positive impact on the domestic home appliance market as a whole.

### Huge Potential in the Mass Market

In recent years, the gross domestic product (GDP) of China's third and fourth-tier cities and per capita income of the rural population continued to rise. Meanwhile, rapid economic development caused capital and labour force continue to flow into third and fourth-tier cities, thereby accelerating the development of these regions and creating a greater market. Amidst the continued restructuring of China's home appliance industry, and in line with the Central Government's home appliance subsidy policies, the Group actively participated in the "全國消費電子管道商聯盟" (National consumer electronics sales channels alliance). The objective of the alliance is to promote the development of China's third and fourth-tier home appliance markets; its formation facilitates the long-term harmonious and sustainable development of the domestic consumer electronics market. Moreover, the Home Appliance Subsidy Program for Rural Areas also has the effect of boosting rural spending and growth in consumption, improving the living standard of rural population and promoting industry development. As such, the Group will continue to maintain a high quality customer service management system, optimize its distribution network, build a good corporate image and reputation, and ultimately consolidate its market leading position in the home appliance sector of third and fourth-tier cities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Rapid Growth across all Business Segments

The Group is principally engaged in retail operation, bulk distribution (including sales to our franchisees) and the provision of after-sales services, which are complementary to each other. With the expansion of our sales network and franchise model, including an increase in the number of our self-operated stores and franchised stores and expansion of our bulk distribution operation through acquisition of authorized bulk distribution rights from suppliers, as well as our extensive and comprehensive after-sales service network which is effective in reinforcing customer loyalty and bringing additional income source, we registered a strong growth in revenue in the past six months, reflecting the rapid expansion across all business segments.

#### 1. Retail business

➢ **Self-operated stores**

We believe that store location is crucial to the success of retail business. Our strategic business focuses on the third and fourth-tier markets within or near Jiangsu Province. We offer a wide selection of products through our self-operated stores, covering approximately 16,000 product model types. Our self-operated stores generally stock more modern and higher value products, as well as more premium domestic and international brands compared with our franchised stores.

During the period under review, we opened eight self-operated stores in Yangzhou, Taizhou, Huaian, Suzhou and Xuancheng respectively, including the dedicated brand store in Kunshan opened in late April and closed one store in Yangzhou. In late June, we celebrated the grand opening of our second store in Taixing, representing a further step towards the strengthening and optimization of our sales network. As at 30 June 2010, we have a total of 34 self-operated stores, an increase of 25.9% from 27 stores for the corresponding period of 2009. Among which, our Yangzhou flagship store and 19 general stores offer a comprehensive range of products and brands, four were shop-in-shop in department stores offering mainly higher-end home appliances and consumer electronics, and 10 specialty air-conditioner or dedicated brand retail stores to satisfy the special market demand in different localities.

➢ **Franchised stores**

Our business operation is characterized by the presence of a significant number of franchised stores, most of which are operated under our registered brand of "汇银 (Huiyin*)" within our chain. Through our franchised stores, we offer end-customers in the third and fourth-tier markets with over 700 product model types. Moreover, product sales to our franchised stores is also one of the major contributors to our revenue. As at 30 June 2010, revenue from franchised stores accounted for approximately 25.2% of the Group's revenue.

During the period under review, the Company formed the first franchise consolidation management committee, and signed franchise chain agreements for franchise consolidation management with certain franchisees, signifying a milestone in the Company's franchise consolidation management strategy.

Our retail franchise operation has expanded into an extensive network of 235 franchised stores, an increase of 6.8% from 220 stores at the end of 2009.

➢ **Outlet network**

To consolidate our foothold in the highly scattered third and fourth-tier markets, we have adopted a unique development strategy, that is, by establishing self-operated stores with large floor area in popular shopping districts within the target market, and opening of franchised stores in the more densely populated surrounding rural areas. This strategy not only served to raise our brand awareness, but also extend our business coverage. Currently, we have 34 stores in 29 cities/districts of Jiangsu and Anhui provinces, of which eight stores were opened during the period under review.

| | Self-operated stores | Franchised stores |
|---|---|---|
| **Jiangsu Province** | | |
| Yangzhou | 14 | 120 |
| Taizhou | 6 | 34 |
| Suzhou | 1 | 8 |
| Nanjing | 1 | 2 |
| Zhenjiang | 2 | 6 |
| Changzhou | — | 41 |
| Yancheng | 1 | 2 |
| Wuxi | — | 14 |
| Huaian | 3 | 1 |
| Lianyungang | — | 1 |
| Nantong | — | 1 |
| **Anhui Province** | | |
| Chuzhou | 3 | 4 |
| Xuancheng | 3 | — |
| Chaohu | — | 1 |
| Total | 34 | 235 |

## 2. Bulk distribution

Unlike traditional retail chain operators, we distribute as a supplier to our franchised stores as well as other independent third parties, mainly household electronics retailers and our corporate customers. We are currently one of the bulk distributors of selected types of home appliances and consumer electronic products, principally air-conditioners, refrigerators and TV sets, for over 20 internationally or domestically renowned brands.

Our appointment as bulk distributor for these branded home appliances and consumer electronic products is attributable to our proven retail experience in Jiangsu and Anhui provinces. Our suppliers benefit from our distribution logistics, from delivery to warehousing to account management, without the need to establish a branch stores in our target markets. In addition, we have adopted a business strategy of sourcing our supplies principally on a Cash-on-Delivery ("COD") or a very short-term credit basis, which relieves our suppliers' cash flow burden and adds to our creditworthiness.

The exclusive supplier status building on our franchised stores ensures a steady revenue stream for our bulk distribution operations, and provides a stable and reliable source of supply for our retail stores.

3. **After-sales services**

   We offer a broad range of installation and maintenance services for the products purchased from us or from other third party vendors, and provide support to our retail business. After-sales maintenance is particularly important for opening up of rural markets, as customers in these regions are typically less inclined to replace their appliances with new ones within a short period of time. We believe that timely and quality after-sales warranty is one of the key factors that these customers take into consideration in making purchases.

   We have provided such authorized after-sales services to most of our branded electronic suppliers for more than three years. Our capability to offer quality maintenance services, coupled with our extensive strategic network of service centers, helps boost customer confidence in the quality and reliability of our retail chain.

   Operating through authorized arrangements with independent third party operators allowed us to extend the geographic coverage of our after-sales customer service with less capital requirements and operational risks. As at 30 June 2010, we operated and managed a total of 139 service centers, comprising 13 self-operated service centers and 126 authorized service centers, representing an increase of 10.3% from 126 service centers as at the end of 2009, giving a ratio of one service centre to approximately 1.9 stores.

## Favourable government policies

We have been appointed as an authorized distributor under the Home Appliance Subsidy Program for Rural Areas and as an authorized sales enterprise and authorized recycling enterprise under the Home Appliances Replacement Scheme since 2009. As at 30 June 2010, 75 out of our 235 franchised stores are eligible to sell merchandise under the Home Appliance Subsidy Program for Rural Areas.

The Home Appliance Subsidy Program for Rural Areas and the Home Appliances Replacement Scheme will continue to encourage residents in China's rural communities to purchase new home appliances and consumer electronics products, which will in turn positively impact all of our retail, distribution and after-sales services businesses. Furthermore, our strategic business focus and well-established position in the target markets are beneficial to the sustainable growth of our businesses and our capability in capturing opportunities arising from favourable government policies. For the six months ended 30 June 2010, approximately 7.4% and 30.5% of our revenue were generated from sale of merchandise under the Home Appliance Subsidy Program for Rural Areas and the Home Appliances Replacement Scheme respectively.

## Purchasing strategy

We have adopted a specific purchasing strategy by making prepayments to certain of our suppliers, as well as the strategy of sourcing on a Cash-on-Delivery ("COD") or very short-term credit basis, which served to relieve our suppliers' cash flow burden and risks of bad debts. During the period under review, we purchased from a total of over 150 suppliers for both our retail and distribution operations. The purchasing department continuously reviews new and existing products with a view to maintaining a wide range of high quality, branded consumer electronics products within our product mix.

## Enhanced relationships with suppliers

Through our close working relationships with our suppliers, we continued to enjoy competitive terms and extensive support from suppliers. To ensure efficiency and constant communication, dedicated teams within our distribution division were set up to liaise with each of our suppliers daily. Moreover, as the coverage of our dedicated brand retail stores continued to expand, our suppliers were therefore benefitted from our distribution logistics, from delivery to warehousing to account management, without the need to establish a physical presence in our target markets.

### Enhanced relationships with suppliers *(continued)*

In addition, the adoption of a purchasing strategy of sourcing our supplies on a COD or very short-term credit basis also helped us build a good relationship with suppliers, thereby enhancing our steady supply of merchandise to our self-operated stores and franchised stores, and providing us with greater flexibility in pricing our merchandise at the retail level. In February 2010, we signed a regional cooperation agreement on household air-conditioner operations with a brand to sustain the stable strategic cooperation between both parties.

### Comprehensive logistics and inventory management

An effective inventory logistics management system is crucial in meeting consumer requirements and in improving our overall business performance. We have developed localized logistics networks to serve the regions where we have established stores. The computer systems of our distribution centers are connected to our management information system in our headquarters to assist in product procurement, store delivery and inventory management. Delivery of merchandise from distribution centers to stores or to our customers is either handled by our own delivery team or through independent contractors, thus ensuring service efficiency and saving the costs of maintaining a large delivery team and vehicle fleets. As at 30 June 2010, we had 14 warehouses and distribution centers with a total area of over 34,000 sq.m to serve our stores in the relevant regions.

### Marketing and promotion

In addition to undertaking market research and surveys regularly in order to collect market data in relation to matters such as consumer behaviour and feedback from customers on various marketing tactics adopted by stores, we also made use of our website to launch promotional activities, post different types of advertisements, launch regular sales promotion and maintain close relationships with local communities, as a way to attract more customers. During the period under review, we had launched several large-scale sales promotion activities, including "慶祝上市、感恩時刻、全民共享" (Celebration of the Company's listing on SEHK), "紅動五一" (Celebration of the Labour Day on May 1st), "端午家電團購" (Dragon Boat Festival group purchase). Apart from providing customers with more new offerings and special offers, we also noted the revenue growth and positive consumer comments brought about by customer relationship management.

### Upgrade of information technology systems

During the period under review, we had enhanced our I.T. systems to extend the scope of information sharing between us and some of our franchisees, which allowed us to effectively track the sales performance and stock level of our franchised stores on a real-time basis and ultimately facilitating our sourcing operations and inventory control, replenishments and logistics. Meanwhile, our existing management information technology system had also undergone an upgrade.

## PROSPECTS

It is our goal to establish ourselves as one of the leading integrated retail chain operators and distributors of home appliances and consumer electronics products in the third and fourth-tier markets in eastern China. Apart from establishing new stores in existing regions, we plan to expand into new regions and to pursue further acquisition opportunities in a prudent and selective manner. We have begun to establish our presence in Anhui Province and plan to further our expansion in this region.

In future, we will upgrade our existing stores, expand our product offerings and strengthen our operational infrastructure and activities to improve the sales and profitability of our stores. We will also enhance our brand marketing activities, further strengthen relationships with our suppliers, enhance the operating standards and financial contribution of franchised stores, and further improve our information technology systems.

We believe that the effective implementation of the above strategies will enable the Company to secure its leadership position in the third and fourth-tier markets in Eastern China as well as achieve sustainable business growth.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

During the period under review, due to the business development in 2010 and the recovery from macro-economic slow-down in beginning of 2009, the Group's revenue was approximately RMB785.8 million, representing an increase of 43.07% from RMB549.3 million in the same period in 2009.

Turnover of the Group comprises revenues by operation as follows:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **RMB'000** | | RMB'000 | |
| Retail | **338,777** | **43.1%** | 196,895 | 35.9% |
| Bulk distribution | | | | |
| – Sales to franchisees | **198,124** | **25.2%** | 185,328 | 33.7% |
| – Sales to other retailers and distributors | **242,124** | **30.8%** | 162,802 | 29.6% |
| Rendering of services | **6,790** | **0.9%** | 4,231 | 0.8% |
| Total revenue | **785,815** | **100.0%** | 549,256 | 100.0% |

During the period under review, 24 self-operated stores of the Group which already operated in the same period in 2009 accounted for 70.59% of the total number of the Group's self-operated stores at the end of the period under review. The increase in retail sales was also attributable to the Rural Appliance Rebate Program and the Change of the Old for New Program, as well as an increase in sales per self-operated store due to our enhanced brand recognition, improved store management and improved market conditions in 2010.

During the period under review, sales to franchisees increased primarily as a result of an increase of the franchised stores and increase in sales volume due to the Rural Appliance Rebate Program.

During the period under review, sales to other retailers and distributors increased mainly due to an increase in sales volume as a result of the Rural Appliance Rebate Program as well as extended distribution rights for certain brands and products in certain areas.

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

| | Six months ended 30 June 2010 | |
|---|---|---|
| | RMB'000 | |
| Air-conditioners | 505,236 | 64.9% |
| TV sets | 142,491 | 18.3% |
| Refrigerators | 66,669 | 8.6% |
| Washing machines | 31,243 | 4.0% |
| Other small appliances | 33,386 | 4.2% |
| Total revenue | 779,025 | 100.0% |

## Cost of Sales

Cost of sales increased by approximately 40.00% from RMB461.9 million for the six months ended 30 June 2009 to RMB646.7 million for the six months ended 30 June 2010, primarily due to an increase in sales volume. The rate of increase in cost of sales was lower than that of our revenue growth principally because: (i) the sales volume of our retail operation increased at a faster rate than that of our bulk distribution operation, as the price that we charge for merchandise at our self-operated stores are generally higher than the prices of similar products sold through our bulk distribution operation; and (ii) the Rural Appliance Rebate Program and the Change of the Old for New Program help the Group recover from the poor market conditions at the beginning of 2009.

## Gross Profit

As a result of the above principal factors, our gross profit increased by approximately 59.16% from RMB87.4 million for the six months ended 30 June 2009 to RMB139.1 million for the same period of 2010.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| Retail | **23.21%** | 22.60% |
| Bulk distribution | **13.07%** | 11.91% |
| Rendering of services | **43.43%** | 34.55% |
| Total revenue | **17.70%** | 15.91% |

The increase in gross profit margin of our retail operation was due to the Rural Appliance Rebate Program and the Change of the Old for New Program, under which we were appointed as an authorized distributor and an authorized sales enterprise and authorized recycling enterprise in February 2009 and August 2009, respectively. Our Directors are of the view that products sold under the Rural Appliance Rebate Program and the Change of the Old for New Program generate higher gross profit margins generally as customers' price sensitivities on the merchandise to be purchased are reduced due to the effect of the rebates or discounts provided by the PRC Government for the merchandise under these programs.

The increase in gross profit margin of our bulk distribution operation was primarily due to an increase in sales volume of merchandise covered under the Rural Appliance Rebate Program and the Change of the Old for New Program. Our appointment as an authorized distributor under Rural Appliance Rebate Program also strengthened our bargaining power with our franchisees and third party customers in relation to other products not covered under the program.

## Other Income

During the period under review, the Group recorded other income of approximately RMB10.6 million, representing an increase from RMB3.1 million in the same period in 2009, which was mainly due to the subsidy arising from the Change of the Old for New Program and government grant from Yangzhou City as the award for the successful listing of the Company.

## Selling and Marketing Expenses

During the period under review, the Group's total selling and marketing expenses amounted to approximately RMB43.5 million, representing an increase from RMB26.2 million in the same period in 2009, which was mainly due to the increase of the employee benefit expenses, operating lease expenses, promotion and advertising expenses and etc.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| Employee benefit expenses | **0.92%** | 0.52% |
| Service charges | **0.33%** | 0.35% |
| Operating lease expenses in respect of buildings and warehouses | **0.91%** | 0.98% |
| Promotion and advertising expenses | **1.42%** | 1.46% |
| Depreciation of property, plant and equipment | **0.64%** | 0.71% |
| Utilities and telephone expenses | **0.09%** | 0.20% |
| Transportation expenses | **0.58%** | 0.41% |
| Travelling expenses | **0.24%** | 0.13% |
| Others | **0.42%** | 0.14% |
| Total selling and marketing expenses | **5.55%** | 4.90% |

The increase of the employee benefit expenses was mainly due to the expansion of our operations and our distribution network, including an increase in the number of our self-operated stores, as well as the development of the human resources backup for the business expansion in the second half of 2010.

## Administrative Expenses

During the period under review, the Group's total administrative expenses amounted to approximately RMB46.1 million, increasing from RMB16.2 million in the same period in 2009, which was mainly due to the increase of the employee benefit expenses, pre-IPO share option expenses and professional fees for the listing of the Company, etc.

The following table sets out a summary for administrative expenses:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Employee benefit expenses | **11,308** | 5,710 |
| Pre-IPO Option Scheme expenses | **6,336** | — |
| Operating lease expenses in respect of buildings | **2,319** | 1,116 |
| Utilities and telephone expenses | **1,973** | 738 |
| Travelling expenses | **2,117** | 567 |
| Professional fees for the listing of the Company | **7,185** | 1,528 |
| Auditor's remuneration | **1,964** | 208 |
| Consulting expenses | **1,812** | 157 |
| Others | **11,123** | 6,200 |
| Total administrative expenses | **46,137** | 16,224 |

The increase of the employee benefit expenses was mainly due to (i) the increase in salaries and welfare benefits for our management and administrative personnel; (ii) the increase in the number of employees which was in line with the expanded business of the Group; and (iii) the development of the human resources backup for the business expansion in the second half of 2010.

## Profit from Operations

Profit from operations was approximately RMB59.2 million for the six months ended 30 June 2010, increased by RMB11.2 million compared with the same period in 2009, which was mainly due to the combining effect of the increase in the gross profit and operating expenses.

## Finance Income and Costs

During the period under review, the Group's net finance costs was approximately RMB2.0 million, while there was approximately RMB0.4 million of the net finance income in the same period of 2009, which was mainly due to the fact that less borrowings were incurred in the first half of 2009 compared with the first half of 2010.

### Profit before Income Tax

During the period under review, the Group's profit before income tax was approximately RMB57.2 million, increased by approximately 18.01% from RMB48.5 million in the same period in 2009.

### Income Tax

During the period under review, the Group's income tax was approximately RMB20.3 million, representing 35.49% of the profit before income tax, compared with approximately RMB13.1 million, representing 27.02% of the profit before income tax, in the same period in 2009. The higher effective income tax rate during the period under review was mainly due to certain non-deductible expenses, including Pre-IPO Option Scheme expenses, professional fees for the listing of the Company and etc.

### Profit Attributable to Equity Holders of the Company

The Group's profit attributable to equity holders for the period under review and the same period in 2009 were approximately RMB36.3 million and RMB34.7 million respectively. If the impact of Pre-IPO Option Scheme expenses and professional fees for the listing of the Company is excluded, the increase rate would be approximately 37.57%.

### Cash and Cash Equivalents

As at 30 June 2010, the Group's cash and cash equivalents were approximately RMB175.1 million, representing a substantial increase from RMB18.2 million at the end of 2009, which was mainly due to the initial public offering of the Company's shares in March 2010.

### Inventories

As at 30 June 2010, the Group's inventories amounted to approximately RMB165.4 million, which was basically the same as the balance of RMB163.1 million at the end of 2009.

### Prepayments, Deposits and Other Receivables

As at 30 June 2010, prepayments, deposits and other receivables of the Group amounted to approximately RMB511.5 million, increasing from RMB352.9 million at the end of 2009. This was mainly because the advance payments to suppliers increased 41.67% which was in line with the increase in the Group's turnover and business development.

### Trade and Bills Receivables

As at 30 June 2010, trade and bills receivables of the Group amounted to approximately RMB146.8 million, increasing from RMB102.6 million at the end of 2009, which was mainly due to the increase of bills receivable. Trade and bills receivables turnover days were 29 days, which represented a slight increase compared with 21 days for the same period in 2009.

### Trade and Bills Payables

As at 30 June 2010, trade and bills payables of the Group amounted to approximately RMB265.4 million, increasing from RMB196.2 million at the end of 2009, which was mainly due to the increase of bills payable. Trade and bills payables turnover days were 64 days, which remained stable compared with 66 days in year of 2009.

### Gearing Ratio and the Basis of Calculation

The Group's gearing ratio as at 30 June 2010 and 31 December 2009 was zero and 10.84% respectively. The decrease was mainly due to the change in borrowing balances. The gearing ratio is equal to total borrowings divided by total balances of equity and borrowings.

### Capital Expenditure

During the period under review, capital expenditure of the Group amounted to approximately RMB12.2 million, decreasing from RMB17.8 million in the same period in 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Cash Flow

During the period under review, net cash outflow from operating activities of the Group amounted to approximately RMB151.4 million as compared to RMB57.1 million in the same period in 2009. Higher cash outflow in 2010 was mainly due to increase in the advance payments to suppliers and restricted bank deposits for the issuance of bills payable to settle the purchase with the suppliers.

Net cash outflow from investing activities amounted to approximately RMB10.7 million as compared to RMB15.8 million in the same period in 2009.

Net cash inflow from financing activities amounted to approximately RMB319.9 million, a substantial increase as compared to RMB44.4 million in the same period in 2009. This was mainly due to the net proceeds from initial public offering of the Company's shares in March 2010.

## Foreign Currencies and Treasury Policy

All the Group's income and the majority of its expenses were denominated in Renminbi. However, as the Renminbi has been appreciating against the US dollar and HK dollar, the Group's deposits denominated in HK dollar have recorded an exchange loss in the first half of 2010. The Group has not hedged its foreign exchange exposure but may consider doing so in the future. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

## Pledging of Assets

As at 30 June 2010, the Group's pledged bank deposits amounted to RMB245.0 million. There is no other asset pledged.

## Contingent Liabilities

As at 30 June 2010, the Group has no significant contingent liabilities.

## Capital Commitments

As at 30 June 2010, the Group has no significant capital commitments.

## Significant Investments Held

There were no significant investments held by the Group as at 30 June 2010.

## Material Acquisition and Disposal

The Group did not engage in any material acquisitions or disposal of any of its subsidiaries or associated companies for the six months ended 30 June 2010.

## Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Use of Funds Raised From Initial Public Offering

On 25 March 2010, the shares of our Company were successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Our initial public offering ("IPO") was well received by investors in both the international offering and the Hong Kong public offering. The Hong Kong public offering was oversubscribed by approximately 599.4 times. Net proceeds raised from the IPO were approximately HK$458.9 million (equivalents to approximately RMB403.5 million).

As stated in the prospectus of the Company dated 12 March 2010, we intend to use approximately HK$156.5 million (equivalent to approximately RMB137.6 million) for expansion of our retail network, approximately HK$203.2 million (equivalent to approximately RMB178.6 million) for potential acquisitions of home appliances and electronics retail enterprises in eastern China which target at the third and fourth-tier markets, approximately HK$55.0 million (equivalent to approximately RMB48.4 million) for expansion of our existing distribution and logistics centre in Jiangsu Province, approximately HK$5.0 million (equivalent to approximately RMB 4.4 million) for improving our existing information and management systems, and approximately HK$39.2 million (equivalent to approximately RMB34.5 million) as our general working capital.

As at 30 June 2010, our use of net proceeds raised from IPO was as follows:

| | Net proceeds from IPO | |
|---|---|---|
| | **Available to utilise (RMB million)** | Utlised (up to 30 June 2010) (RMB million) |
| Expansion of retail network | **137.6** | 42.9 |
| Acquisitions of home applicances and electronics retails enterprises | **178.6** | — |
| Expansion of distribution and logistics centre in Jiangsu Province | **48.4** | — |
| Improving information and management systems | **4.4** | 0.7 |
| General working capital | **34.5** | 34.5 |
| | **403.5** | 78.1 |

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

## Employment and Remuneration Policy

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

## Human resources

As at 30 June 2010, the Group had 1,524 employees, up 81.21% from 841 at the end of 2009.

# OTHER INFORMATION

## SHARE OPTION SCHEMES

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

On 5 March 2010, the four executive Directors and three senior management members were granted the share options to subscribe for up to 50,000,000 Shares pursuant to the Pre-IPO Option Scheme (the "Pre-IPO Options") as follows:

| | Number of Pre-IPO Options | | | | |
|---|---|---|---|---|---|
| **Name** | **As at 1 January 2010** | **Granted during the period** | **Exercised during the period** | **As at 30 June 2010** | **Approximate percentage of interest in the Company** |
| Cao Kuanping<br>*Chairman and Executive Director* | — | 25,000,000 | — | 25,000,000 | 2.38% |
| Mo Chihe<br>*Executive Director* | — | 3,000,000 | — | 3,000,000 | 0.29% |
| Mao Shanxin<br>*Executive Director* | — | 10,000,000 | — | 10,000,000 | 0.95% |
| Wang Zhijin<br>*Executive Director and Chief Financial Officer* | — | 3,000,000 | — | 3,000,000 | 0.29% |
| Lu Chaolin<br>*Vice General Manager of the Company* | — | 3,000,000 | — | 3,000,000 | 0.29% |
| Gao Yuan<br>*General manager of Yangzhou Hengxin Air-conditioner Sales Co., Ltd.* | — | 3,000,000 | — | 3,000,000 | 0.29% |
| Sun Qingxiang<br>*General manager of Yangzhou Huide Electronics Distribution Co., Ltd.* | — | 3,000,000 | — | 3,000,000 | 0.29% |

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

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

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

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

The subscription price payable upon the exercise of any Pre-IPO Options is fixed at HK$1.521. No further options will be offered under the Pre-IPO Option Scheme. Details of the valuation of the Pre-IPO Options are set out in note 12(g) to the unaudited condensed consolidated interim financial statements of this interim report.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2010, the interests or short positions of our Directors and chief executives of our Company in the equity or debt securities of our 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 our Company and the Stock Exchange under Division 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, were as follows:

| Name | Name of corporation | Nature of interest | Aggregate number of ordinary shares or underlying shares | Approximate percentage of interest in the corporation |
|---|---|---|---|---|
| Cao Kuanping | The Company | Interest of controlled corporation | 253,823,625 Shares (L) | 24.21% |
| | The Company | Beneficial owner | 50,000,000 underlying Shares (L) | 4.77% |
| Mo Chihe | The Company | Beneficial owner | 3,000,000 underlying Shares (L) | 0.29% |
| | The Company | Beneficial owner | 3,000,000 underlying Shares (S) | 0.29% |
| Mao Shanxin | The Company | Beneficial owner | 10,000,000 underlying Shares (L) | 0.95% |
| | The Company | Beneficial owner | 10,000,000 underlying Shares (S) | 0.95% |
| Wang Zhijin | The Company | Beneficial owner | 3,000,000 underlying Shares (L) | 0.29% |
| | The Company | Beneficial owner | 3,000,000 underlying Shares (S) | 0.29% |

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

Note:

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

# OTHER INFORMATION

## SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 30 June 2010, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name | Name of corporation | Nature of interest | Aggregate number of ordinary shares | Approximate percentage of interest in the corporation |
|---|---|---|---|---|
| China Ruike Investment & Development Co., Ltd. | The Company | Beneficial owner | 253,823,625 | 24.21% |
| Pope Investments LLC | The Company | Beneficial owner | 60,574,843 | 5.78% |
| Pope Asset Management, LLC | The Company | Interest of controlled corporation | 60,574,843 | 5.78% |
| William P. Wells | The Company | Interest of controlled corporation | 60,574,843 | 5.78% |
| ARC Huiyin Holdings Limited | The Company | Beneficial owner | 196,061,250 | 18.70% |
| ARC Capital Holdings Limited | The Company | Interest of controlled corporation | 196,061,250 | 18.70% |
| The China Fund, Inc. | The Company | Beneficial owner | 160,413,750 | 15.30% |
| Martin Currie Inc. | The Company | Interest of controlled corporation | 160,413,750 | 15.30% |
| Martin Currie Limited | The Company | Interest of controlled corporation | 160,413,750 | 15.30% |
| Martin Currie (Holdings) Limited | The Company | Interest of controlled corporation | 160,413,750 | 15.30% |
| State Street Corporation | The Company | Custodian corporation/approved lending agent | 160,413,750 | 15.30% |

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from the commencement of listing of the Company's shares on the Stock Exchange to 30 June 2010 and up to the date of this interim report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

As set out in note 27(b) to the unaudited condensed consolidated interim financial statements of this interim report, during the six months ended 30 June 2010, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB525,000. The relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules on an annual basis in respect of our annual aggregate amount of such rental expenses will not exceed 0.1% and the continuing connected transaction will be exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules. Details of the aforesaid transaction have been disclosed in the section headed "Connected Transactions" of the prospectus of the Company dated 12 March 2010.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules for the period from the commencement of the listing of its shares on the Stock Exchange to 30 June 2010 except with the following deviation.

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

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

## LEGAL COMPLIANCE

In the prospectus of the Company dated 12 March 2010 in respect of its initial public offering, we disclosed that 17 out of our then self-operated stores (excluding our four shop-in-shop stores which are operated within department stores) had not undertaken fire inspection tests in March 2010. As at the date of this interim report, 12 out of such 17 self-operated stores had undertaken and passed fire inspection tests. We have filed the applications for fire inspection tests with the relevant PRC authorities by the end of June 2010 in respect of the remaining 5 self-operated stores which have not undertaken fire inspection tests in order to pass the fire inspection tests in respect of such self-operated stores by the end of September 2010.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all Directors and the Directors have confirmed compliance with the required standard set out in the Model Code during the period from the commencement of the listing of its shares on the Stock Exchange to 30 June 2010.

# OTHER INFORMATION

## CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

Mr. Wang Zhijin, an executive Director, was appointed as a director of China Yinrui (HK) Investment Holding Company Limited, a wholly owned subsidiary of the Company, on 6 May 2010.

## AUDIT COMMITTEE

The Audit Committee of the Group was established in 2010. Currently, it comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Li Fei and Mr. Zhou Shuiwen. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has adopted the term of reference in line with the Code on Corporate Governance Practices issued by the Stock Exchange. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. 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 2010. In addition, the Company's auditor PricewaterhouseCoopers has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2010.

## 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 the commencement of listing of the Company's shares on the Stock Exchange to 30 June 2010, 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 2010.

By order of the Board

**Cao Kuanping**
Chairman

Hong Kong, 25 August 2010

# CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | 5 | 18,446 | 18,664 |
| Property, plant and equipment | 5 | 122,367 | 116,587 |
| Investment properties | 5 | 24,410 | 24,728 |
| Intangible assets | 5 | 3,654 | 3,303 |
| Deferred income tax assets | 6 | 13,031 | 11,169 |
| | | 181,908 | 174,451 |
| **Current assets** | | | |
| Inventories | 7 | 165,404 | 163,096 |
| Trade and bills receivables | 8 | 146,765 | 102,604 |
| Prepayments, deposits and other receivables | 9 | 511,459 | 352,896 |
| Restricted bank deposits | 10 | 244,975 | 134,347 |
| Cash and cash equivalents | 11 | 175,073 | 18,150 |
| | | 1,243,676 | 771,093 |
| **Total assets** | | 1,425,584 | 945,544 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 12 | 7,162 | 142 |
| Reserves | | 984,858 | 572,813 |
| | | 992,020 | 572,955 |
| **Non-controlling interests in equity** | | 3,126 | 2,508 |
| **Total equity** | | 995,146 | 575,463 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 6 | 60,507 | 39,352 |
| **Current liabilities** | | | |
| Trade and bills payables | 13 | 265,394 | 196,167 |
| Accruals and other payables | 14 | 61,302 | 60,889 |
| Dividend payable | 24 | 40,980 | — |
| Borrowings | 15 | — | 70,000 |
| Current income tax liabilities | | 2,255 | 3,673 |
| | | 369,931 | 330,729 |
| **Total liabilities** | | 430,438 | 370,081 |
| **Total equity and liabilities** | | 1,425,584 | 945,544 |
| **Net current assets** | | 873,745 | 440,364 |
| **Total assets less current liabilities** | | 1,055,653 | 614,815 |

The notes on pages 26 to 52 form an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | Unaudited<br>Six months ended 30 June<br>2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| Revenue | 17 | 785,815 | 549,256 |
| Cost of sales | 20 | (646,705) | (461,854) |
| **Gross profit** | | 139,110 | 87,402 |
| Other income | 18 | 10,643 | 3,059 |
| Other losses — net | 19 | (963) | (13) |
| Selling and marketing expenses | 20 | (43,485) | (26,209) |
| Administrative expenses | 20 | (46,137) | (16,224) |
| **Operating profit** | | 59,168 | 48,015 |
| Finance income | | 1,320 | 1,903 |
| Finance costs | | (3,307) | (1,463) |
| Finance (costs)/income — net | 21 | (1,987) | 440 |
| **Profit before income tax** | | 57,181 | 48,455 |
| Income tax expense | 22 | (20,292) | (13,094) |
| **Profit for the period** | | 36,889 | 35,361 |
| **Attributable to:** | | | |
| - Equity holders of the Company | | 36,271 | 34,667 |
| - Non-controlling interests | | 618 | 694 |
| | | 36,889 | 35,361 |
| Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share) | | | |
| - Basic | 23 | 3.99 | 4.62 |
| - Diluted | 23 | 3.94 | 4.62 |
| Dividend | 24 | 40,980 | — |

The notes on pages 26 to 52 form an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| **Profit for the period** | 36,889 | 35,361 |
| **Other comprehensive income** | — | — |
| **Total comprehensive income for the period** | 36,889 | 35,361 |
| **Attributable to:** | | |
| - Equity holders of the Company | 36,271 | 34,667 |
| - Non-controlling interests | 618 | 694 |
| | 36,889 | 35,361 |

The notes on pages 26 to 52 form an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | Unaudited | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Company | | | | | | | |
| | Note | Share capital RMB'000 | Share premium RMB'000 | Statutory reserves RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2009** | | 142 | 435,188 | 15,101 | (88,917) | 119,964 | 481,478 | 1,408 | 482,886 |
| Profit/Total comprehensive income for the six months ended 30 June 2009 | | – | – | – | – | 34,667 | 34,667 | 694 | 35,361 |
| Dividends paid by a subsidiary to non-controlling interests | | – | – | – | – | – | – | (50) | (50) |
| **Balance at 30 June 2009** | | 142 | 435,188 | 15,101 | (88,917) | 154,631 | 516,145 | 2,052 | 518,197 |
| **Balance at 1 January 2010** | | 142 | 435,188 | 15,377 | (88,917) | 211,165 | 572,955 | 2,508 | 575,463 |
| Profit/Total comprehensive income for the six months ended 30 June 2010 | | – | – | – | – | 36,271 | 36,271 | 618 | 36,889 |
| Issue of shares | 12 | 7,020 | 410,418 | – | – | – | 417,438 | – | 417,438 |
| Pre-IPO Option Scheme – value of employee services | 20 | – | – | – | 6,336 | – | 6,336 | – | 6,336 |
| Dividend | 24 | – | – | – | – | (40,980) | (40,980) | – | (40,980) |
| **Balance at 30 June 2010** | | 7,162 | 845,606 | 15,377 | (82,581) | 206,456 | 992,020 | 3,126 | 995,146 |

The notes on pages 26 to 52 form an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Note | Unaudited Six months ended 30 June 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash used in operations | | (146,483) | (51,709) |
| Interest paid | | (2,545) | (1,463) |
| Income tax paid | | (2,417) | (3,939) |
| Net cash used in operating activities | | (151,445) | (57,111) |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | | (11,371) | (17,708) |
| Purchase of intangible assets | 5 | (715) | (44) |
| Proceeds from disposal of property, plant and equipment | | 19 | 8 |
| Interest received | | 1,320 | 1,903 |
| Net cash used in investing activities | | (10,747) | (15,841) |
| **Cash flows from financing activities:** | | | |
| Net proceeds from initial public offering (excluding the underwriter's fee, incentive fees and professional fees) | | 403,528 | — |
| Proceeds from bank borrowings | | 124,500 | 45,000 |
| Repayments of bank borrowings | | (194,500) | — |
| Dividend paid by a subsidiary to non-controlling interests | | — | (50) |
| Professional fees paid relating to the Listing of the Company | | (13,651) | (591) |
| Net cash generated from financing activities | | 319,877 | 44,359 |
| **Increase/(decrease) in cash and cash equivalents** | | 157,685 | (28,593) |
| Cash and cash equivalents at beginning of the period | 11 | 18,150 | 81,684 |
| Exchange differences on cash and cash equivalents | | (762) | — |
| Cash and cash equivalents at end of the period | 11 | 175,073 | 53,091 |

The notes on pages 26 to 52 form an integral part of these condensed consolidated interim financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

## 1 GENERAL INFORMATION

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

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

The Group's businesses were primarily carried out by Yangzhou Huiyin Household Appliance Co., Ltd. ("Yangzhou Huiyin"). In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the following reorganisation steps (the "Reorganisation") were carried out:

(i) The Company was incorporated on 5 February 2008 by the major equity holder of Yangzhou Huiyin, Mr. Cao Kuanping, who subsequently transferred his 100% ownership in the Company on 17 March 2008 to his another wholly owned company, China Houde Investment Co., Ltd. ("China Houde").

(ii) China Yinrui (HK) Investment Holding Company Limited ("China Yinrui (HK)") was incorporated on 14 March 2008 as a wholly owned subsidiary of the Company.

(iii) Pursuant to an equity transfer agreement dated 3 April 2008, China Yinrui (HK) acquired 52.47%, 22.35% and 25.18% equity interests (totalling 100%) in Yangzhou Huiyin from the then shareholders of Yangzhou Huiyin, namely China Houde, New Dame Limited ("New Dame") and New Fellow Holdings Limited ("New Fellow") respectively, at a total consideration of US$46,417,000, (equivalent to RMB346,413,000) based on the then registered and paid-up capital of Yangzhou Huiyin. In consideration of such acquisition and pursuant to a subscription agreement dated 3 April 2008, the Company issued and allotted 10,493,999 shares, 4,470,000 shares, and 5,036,000 shares to the then shareholders of Yangzhou Huiyin, namely China Houde, New Dame and New Fellow, at a consideration of US$24,355,000, US$10,374,200 and US$11,687,800 respectively (totalling US$46,417,000). The amounts payable by China Houde, New Dame and New Fellow for the subscription of the aforementioned shares were set off against the amounts payable by China Yinrui (HK) to them for the acquisition of the entire equity interest in Yangzhou Huiyin.

After the completion of the Reorganisation on 3 April 2008, the Company became the holding company of the subsidiaries comprising the Group. As further explained in Note 2, the Reorganisation has been accounted for as a reverse acquisition. For accounting purposes, the total cost for acquisition of Yangzhou Huiyin by China Yinrui (HK) and the total monetary value of the shares issued by the Company as described in note (iii) above are both regarded as amounted to RMB435,330,000, being the historical carrying amount of the net assets of Yangzhou Huiyin prior to the Reorganisation. The total cost for acquisition of Yangzhou Huiyin is recorded as a debit in other reserve under equity and resulted in a net debit of RMB88,917,000 after netting with the paid-up capital of Yangzhou Huiyin of RMB346,413,000 which is also recorded in other reserve. The excess of the monetary value over the nominal value of the shares issued amounting to RMB435,188,000 is recorded in share premium under equity.

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

## 2 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2010 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial statements should be read in conjunction with the accountant's report (the "Accountant's Report") set out in Appendix I to the prospectus of the Company dated 12 March 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

These condensed consolidated interim financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated and were approved by the Company's board of directors on 25 August 2010.

These condensed consolidated interim financial statements have not been audited.

The Reorganisation as described in Note 1 above has been accounted for as a reverse acquisition under Hong Kong Financial Reporting Standard 3 "Business Combinations" since the completion of the Reorganisation on 3 April 2008 resulted in the Company becoming the holding company of Yangzhou Huiyin, through its wholly owned subsidiary China Yinrui (HK). For accounting purposes, in preparing the financial statements, Yangzhou Huiyin is treated as the acquirer while the Company and China Yinrui (HK) were deemed to have been acquired by Yangzhou Huiyin. The financial statements of the Group has been prepared as a continuation of the consolidated financial statements of Yangzhou Huiyin and of the Group. Accordingly upon the Reorganisation:

(a) The assets and liabilities of Yangzhou Huiyin are recognised and measured in the financial statements at their historical carrying amounts prior to the Reorganisation;

(b) The retained earnings and other equity balances of Yangzhou Huiyin prior to the Reorganisation are retained in the equity balances in the financial statements;

(c) The equity structure appearing in the financial statements (being the number and type of equity instruments issued) reflects the equity structure of the Company (the legal parent) and includes the shares issued for the Reorganisation;

(d) The cost for acquisition of Yangzhou Huiyin (the legal subsidiary) by China Yinrui (HK) (the legal acquirer) is recorded as a debit in other reserve under equity. The cost of acquisition is determined using the historical carrying amount of the net assets of Yangzhou Yinrui prior to the Reorganisation.

## 3 ACCOUNTING POLICIES

Except as stated below, the accounting policies applied are consistent with those used for and described in the Accountant's Report.

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

(a) New/revised standards, amendments and interpretations to existing standards mandatory for the financial year beginning on 1 January 2010 that are relevant to the Group's operations

- HKFRS 3 (Revised) 'Business Combinations', and consequential amendments to HKAS 27 'Consolidated and Separate Financial Statements', HKAS 28 'Investments in Associates', and HKAS 31 'Interests in Joint Ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The revised standard requires changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in the income statements. Any investment retained in the former subsidiary is measured at its fair value as at the date when control is lost.

The adoption of the above revised standards starting from 1 January 2010 did not give rise to any significant impact on the Group's results of operations and financial position for the six months ended 30 June 2010.

(b) New/revised standards, amendments and interpretations to existing standards effective in 2010 but are not relevant to the Group

- HK(IFRIC)-Int 17 'Distributions of Non-cash Assets to Owners' is effective for annual periods beginning on or after 1 July 2009.

- 'Additional Exemptions for First-time Adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010.

- HKAS 39 (Amendment) 'Eligible Hedged Items' is effective for annual periods beginning on or after 1 July 2009.

- HKFRS 2 (Amendment) 'Group Cash-settled Share-based Payment Transactions' is effective for annual periods beginning on or after 1 January 2010.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" is effective for annual periods beginning on or after 1 July 2009.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

## 3 ACCOUNTING POLICIES *(continued)*

(c) The following new/revised standards, new amendments and interpretations to existing standards have been issued and are relevant to the Group but they are not effective for the financial year beginning on 1 January 2010 and have not been early adopted by the Group

- HKFRS 9 'Financial Instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

- HKAS 24 (Revised) 'Related Party Disclosures' supersedes HKAS 24 'Related Party Disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted.

- Under 'Classification of Rights Issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

- Amendments to HK(IFRIC) Int-14 'Prepayments of a Minimum Funding Requirement' corrects an unintended consequence of HK(IFRIC) Int-14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning on or after 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

- HK(IFRIC) –Int 19, 'Extinguishing Financial Liabilities with Equity Instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by HKICPA. All improvements are effective in the financial year of 2011.

The Group will apply the new/revised standards, amendments and interpretations to existing standards described above starting from 1 January 2011. The Group is in the process of making an assessment on the impact of these new/revised standards, amendments and interpretations and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position.

## 4 SEGMENT INFORMATION

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

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

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

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

Other operations of the Group mainly comprise provision of maintenance and installation services to customers.

The unaudited segment results for the six months ended 30 June 2010 are as follows:

| | Retail RMB'000 | Bulk distribution RMB'000 | Other RMB'000 | Unallocated* RMB'000 | Group RMB'000 |
|---|---|---|---|---|---|
| Segment revenue | 338,777 | 851,431 | 6,790 | — | 1,196,998 |
| Inter-segment revenue | — | (411,183) | — | — | (411,183) |
| Revenue | 338,777 | 440,248 | 6,790 | — | 785,815 |
| Operating profit/(loss) | 40,125 | 26,255 | 2,949 | (10,161) | 59,168 |
| Finance costs - net | | | | | (1,987) |
| Profit before income tax | | | | | 57,181 |
| Income tax expense | | | | | (20,292) |
| Profit for the period | | | | | 36,889 |
| Other segment items are as follows: | | | | | |
| Capital expenditure | 6,814 | 5,399 | — | — | 12,213 |
| Depreciation charge | 3,380 | 2,318 | — | — | 5,698 |
| Amortisation charge | 583 | 317 | — | — | 900 |

## 4 SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2009 are as follows:

| | Retail RMB'000 | Bulk distribution RMB'000 | Other RMB'000 | Unallocated RMB'000 | Group RMB'000 |
|---|---|---|---|---|---|
| Segment revenue | 196,895 | 563,880 | 4,231 | — | 765,006 |
| Inter-segment revenue | — | (215,750) | — | — | (215,750) |
| Revenue | 196,895 | 348,130 | 4,231 | — | 549,256 |
| Operating profit | 26,150 | 20,688 | 1,177 | — | 48,015 |
| Finance income - net | | | | | 440 |
| Profit before income tax | | | | | 48,455 |
| Income tax expense | | | | | (13,094) |
| Profit for the period | | | | | 35,361 |
| Other segment items are as follows: | | | | | |
| Capital expenditure | 9,444 | 8,308 | — | — | 17,752 |
| Depreciation charge | 3,196 | 1,407 | — | — | 4,603 |
| Amortisation charge | 319 | 1,271 | — | — | 1,590 |

* Unallocated mainly represented the expenses incurred by the Company, such as Pre-IPO Option Scheme expenses, losses arising from the exercise of the warrants, auditor's remuneration, exchange losses arising from the bank deposits denominated in foreign currencies.

## 4 SEGMENT INFORMATION *(continued)*

Unaudited segment assets and liabilities as at 30 June 2010 are as follows:

| | Retail RMB'000 | Bulk distribution RMB'000 | Other RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **2010** | | | | |
| Segment assets | 135,099 | 1,208,093 | 7,667 | 1,350,859 |
| Unallocated assets | | | | 74,725 |
| Total assets | | | | 1,425,584 |
| Segment liabilities | 33,535 | 289,159 | 1,826 | 324,520 |
| Unallocated liabilities | | | | 105,918 |
| Total liabilities | | | | 430,438 |

The audited segment assets and liabilities as at 31 December 2009 are as follows:

| | Retail RMB'000 | Bulk distribution RMB'000 | Other RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **2009** | | | | |
| Segment assets | 104,616 | 824,336 | 5,423 | 934,375 |
| Unallocated assets | | | | 11,169 |
| Total assets | | | | 945,544 |
| Segment liabilities | 21,442 | 234,200 | 1,414 | 257,056 |
| Unallocated liabilities | | | | 113,025 |
| Total liabilities | | | | 370,081 |

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables and operating cash and mainly exclude deferred tax assets.

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

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

## 5 CAPITAL EXPENDITURE

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

| | Land use rights RMB'000 | Property, plant and equipment RMB'000 | Investment properties RMB'000 | Intangible assets RMB'000 |
|---|---|---|---|---|
| **Six months ended 30 June 2009** | | | | |
| Opening net book amount at 1 January 2009 | 10,991 | 72,585 | 27,311 | 5,043 |
| Additions | — | 17,708 | — | 44 |
| Transfer in/(out) | — | 1,947 | (1,947) | — |
| Disposals | — | (21) | — | — |
| Amortisation and depreciation (Note 20) | (137) | (4,603) | (318) | (1,135) |
| Closing net book amount at 30 June 2009 | 10,854 | 87,616 | 25,046 | 3,952 |
| **Six months ended 30 June 2010** | | | | |
| Opening net book amount at 1 January 2010 | 18,664 | 116,587 | 24,728 | 3,303 |
| Additions | — | 11,498 | — | 715 |
| Disposals | — | (20) | — | — |
| Amortisation and depreciation (Note 20) | (218) | (5,698) | (318) | (364) |
| Closing net book amount at 30 June 2010 | 18,446 | 122,367 | 24,410 | 3,654 |

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

As at 31 December 2009, land use rights, buildings and investment properties with a total net book value of RMB10,718,000, RMB52,697,000 and RMB24,728,000 respectively had been pledged as collateral for bank acceptance bills of RMB 36,000,000 (Note 13).

Investment properties are located in Mainland China on leases of between 10 to 50 years. The Group chooses the cost model to account for its investment properties and therefore the difference between the fair value and carrying amount of the investment properties and any changes in fair value are not accounted for in these financial statements. The carrying amount of the investment properties would have been RMB 28,300,000 and RMB 28,300,000, respectively, had they been stated at fair values as of 31 December 2009 and 30 June 2010. Fair value was determined by discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question. The fair values of the investment properties as at 31 December 2009 were based on valuation performed by American Appraisal China Limited, an independent and professional qualified valuer. The fair values of the investment properties as at 30 June 2010 were based on a review performed by the management of the Group using the same method adopted by the valuer in arriving at the 31 December 2009 valuation.

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

## 6 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Deferred income tax assets: | | |
| - to be recovered within 12 months | 7,141 | 3,772 |
| - to be recovered after more than 12 months | 5,890 | 7,397 |
| | 13,031 | 11,169 |
| Deferred income tax liabilities: | | |
| - to be settled within 12 months | 59,204 | 38,323 |
| - to be settled after more than 12 months | 1,303 | 1,029 |
| | 60,507 | 39,352 |

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

| | Six months ended 30 June | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| At beginning of the period | (28,183) | (6,180 ) |
| Recognised in the consolidated income statement (Note 22) | (19,293) | (4,740) |
| At end of the period | (47,476) | (10,920) |

## 6 DEFERRED INCOME TAX *(continued)*

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

### Deferred income tax assets

| | Tax losses RMB'000 | Accrued volume discounts to the distributors and franchisees RMB'000 | Accrued expenses RMB'000 | Depreciation RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 3,658 | 2,761 | 1,569 | 457 | 3,305 | 11,750 |
| Recognised in the consolidated income statement | 3,187 | 782 | 131 | 304 | (809) | 3,595 |
| At 30 June 2009 | 6,845 | 3,543 | 1,700 | 761 | 2,496 | 15,345 |
| At 1 January 2010 | 3,079 | 1,295 | 1,791 | 819 | 4,185 | 11,169 |
| Recognised in the consolidated income statement | 3,213 | 895 | (822) | (187) | (1,237) | 1,862 |
| At 30 June 2010 | 6,292 | 2,190 | 969 | 632 | 2,948 | 13,031 |

### Deferred income tax liabilities

| | Withholding taxation on the unremitted earnings of subsidiaries RMB'000 | Arising from the acquisition of a subsidiary RMB'000 | Accrued supplier rebates RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2009 | 312 | 300 | 17,318 | 17,930 |
| Recognised in the consolidated income statement | 261 | (300) | 8,374 | 8,335 |
| At 30 June 2009 | 573 | — | 25,692 | 26,265 |
| At 1 January 2010 | 1,029 | — | 38,323 | 39,352 |
| Recognised in the consolidated income statement | 274 | — | 20,881 | 21,155 |
| At 30 June 2010 | 1,303 | — | 59,204 | 60,507 |

## 7 INVENTORIES

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Merchandise held for resale | 166,421 | 163,284 |
| Provision for obsolescence | (1,353) | (523) |
| | 165,068 | 162,761 |
| Low value consumables | 336 | 335 |
| Total | 165,404 | 163,096 |

As at 31 December 2009, inventories with a total net book value of RMB 75,780,000 had been pledged as collateral for short-term bank borrowings of RMB 40,000,000 (Note 15).

## 8 TRADE AND BILLS RECEIVABLES

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Trade receivables | 109,089 | 101,418 |
| Less: Provision for impairment | (1,261) | (2,504) |
| Trade receivables, net | 107,828 | 98,914 |
| Bills receivable | 38,937 | 3,690 |
| Trade and bills receivables, net | 146,765 | 102,604 |

The average credit terms granted to customers by the Group range from 30 days to 90 days. The bills receivable are collected when they fall due.

## 8 TRADE AND BILLS RECEIVABLES *(continued)*

The ageing analysis of trade receivables, before provision for impairment, as at 30 June 2010 and 31 December 2009 are as follows:

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| 0 - 30 days | 94,967 | 82,942 |
| 31 - 90 days | 9,794 | 13,443 |
| 91 - 365 days | 3,067 | 2,529 |
| 1 year - 2 years | 518 | 1,447 |
| 2 years - 3 years | 542 | 260 |
| Over 3 years | 201 | 797 |
| Total | 109,089 | 101,418 |

All trade and bills receivables are denominated in RMB and their carrying amounts approximate their fair values as at 30 June 2010 and 31 December 2009.

The maximum exposures of the Group to credit risk as at 30 June 2010 and 31 December 2009 were the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security.

## 9 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Prepayments - advance payments to suppliers and rebates receivable from suppliers | 465,150 | 328,327 |
| Deposits | 4,747 | 5,476 |
| Other receivables from third parties | | |
| - Government subsidy receivables | 3,000 | — |
| - Value added tax recoverable | 2,012 | 6,017 |
| - Professional fees paid on behalf of Pope and Dalton | 5,555 | — |
| - Staff advances | 430 | 351 |
| - Amount paid on behalf of a supplier | — | 1,047 |
| - Others | 3,998 | 1,227 |
| | 14,995 | 8,642 |
| Amounts due from related parties (Note 27(d)) | | |
| - Professional fees paid on behalf of China Fund and ARC Huiyin | 11,361 | — |
| - Others | — | 160 |
| | 11,361 | 160 |
| Prepaid rentals | 9,149 | 5,606 |
| Prepaid consulting fees | 5,957 | — |
| Prepayment for professional fees related to the Listing of the Company | — | 3,191 |
| Other prepayments | 100 | 1,494 |
| Total | 511,459 | 352,896 |

The prepayments, deposits and other receivables are mainly denominated in RMB and their carrying amounts approximate their fair values as at 30 June 2010 and 31 December 2009.

## 10 RESTRICTED BANK DEPOSITS

Restricted bank deposits represent bank deposits pledged as collateral for bank acceptance bills (Note 13) of the Group.

All restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair values as at 30 June 2010 and 31 December 2009. The weighted average interest rate per annum on restricted bank deposits was 1.98% and 1.86% at 30 June 2010 and 31 December 2009 respectively.

## 11 CASH AND CASH EQUIVALENTS

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|---|---|
| Cash on hand | 370 | 333 |
| Cash at bank | 174,703 | 17,817 |
| Total | 175,073 | 18,150 |

As at 30 June 2010, cash and cash equivalents are denominated in RMB and Hong Kong Dollar ("HK$"), and the effective interest rate per annum were 0.36% and 0.001% respectively. As at 31 December 2009, cash and cash equivalents were all denominated in RMB and the effective interest rate per annum was 0.36%.

## 12 SHARE CAPITAL

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

| | Note | Par value | Number of ordinary shares | Nominal value of ordinary shares US$ | Equivalent nominal value of ordinary shares RMB'000 |
|---|---|---|---|---|---|
| **Authorised:** | | | | | |
| At 1 January 2009, 30 June 2009 and 31 December 2009 | (a) | US$0.001 | 50,000,000 | 50,000 | 359 |
| Increase | (b) | US$0.001 | 1,950,000,000 | 1,950,000 | 10,239 |
| At 30 June 2010 | | | 2,000,000,000 | 2,000,000 | 10,598 |
| **Issued and fully paid:** | | | | | |
| At 1 January 2009, 30 June 2009 and 31 December 2009 | (c) | US$0.001 | 20,000,000 | 20,000 | 142 |
| Share issued under the capitalisation issue | (d) | US$0.001 | 730,000,000 | 730,000 | 4,983 |
| New issue of shares | (e) | US$0.001 | 297,970,000 | 297,970 | 2,034 |
| Exercise of the Warrants | (f) | US$0.001 | 372,290 | 372 | 3 |
| At 30 June 2010 | | | 1,048,342,290 | 1,048,342 | 7,162 |

Notes:

(a) On 5 February 2008, the Company was incorporated in the Cayman Islands as a limited liability company with authorised share capital of US$50,000 divided into 50,000,000 ordinary shares of US$0.001 each.

(b) On 5 March 2010, the shareholders resolved that the authorised share capital of the Company be increased from US$ 50,000 to US$ 2,000,000 by the creation of an additional 1,950,000,000 shares of US$ 0.001 each.

## 12 SHARE CAPITAL *(continued)*

Notes: *(continued)*

(c) On 5 February 2008, one share was issued to Mr. Cao. On 17 March 2008, Mr. Cao transferred the one share to China Houde.

On 3 April 2008, as described in Note 1(iii), the Company issued and allotted 10,493,999 shares, 4,470,000 shares and 5,036,000 shares (totalling 19,999,999 shares) to China Houde, New Dame and New Fellow respectively.

On 6 March 2010, China Houde made a distribution in specie to its shareholders in proportion to their then shareholdings in China Houde pursuant to which an aggregate of 10,494,000 shares held by China Houde were distributed to China Ruike Investment and Development Co., Ltd. ("China Ruike"), Pope Investments LLC ("Pope") and Dalton Greater China (Master) Fund ("Dalton") as to 6,768,630 shares, 3,216,411 shares and 508,959 shares, respectively.

Also on 6 March 2010, New Dame and New Fellow transferred 4,470,000 shares and 5,036,000 shares (totalling 9,506,000 shares) to Queenbury Investments Limited ("Queenbury") which subsequently made a distribution in specie to its shareholders, namely ARC Huiyin Holdings Limited ("ARC Huiyin") and The China Fund, Inc. ("China Fund"), in proportion to their then shareholdings in Queenbury, pursuant to which an aggregate of 9,506,000 shares were transferred to ARC Huiyin and China Fund as to 5,228,300 shares and 4,277,700 shares, respectively.

(d) Pursuant to a shareholders' resolution dated 5 March 2010, conditional on the share premium account of the Company being credited as a result of the successful Listing of the Company, the Company capitalised an amount of US$730,000, standing to the credit of its share premium account in paying up in full at par 730,000,000 shares, which were allotted and issued to China Ruike, Pope, Dalton, ARC Huiyin and China Fund, pro-rata to their shareholdings as at 6 March 2010 in the Company.

(e) On 25 March 2010, the Company issued 250,000,000 ordinary shares of US$0.001 each at HK$1.69 per share in connection with the Listing, and raised gross proceeds of approximately HK$422,500,000.

On 1 April 2010, pursuant to the exercise of the over-allotment option of the Listing, additional 47,970,000 ordinary shares of US$0.001 each were issued at HK$1.69 per share and gross proceeds of HK$81,069,000 were raised.

(f) On 25 March 2010, the Company issued 148,916 ordinary shares and 223,374 ordinary shares to Dalton and Pope pursuant to the exercise of Warrants by surrender of the Warrants to the Company on 23 March 2010 (Note 16).

## 12 SHARE CAPITAL *(continued)*

Notes: *(continued)*

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

As at 30 June 2010, 50,000,000 outstanding options were not exercisable as they have not yet been vested. These options with an exercise price of HK$1.521 per share upon vesting will be expired on 24 March 2015.

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

The significant inputs to the model are summarised as below:

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

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

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

No option has been granted under the Share Option Scheme as at 30 June 2010.

## 13 TRADE AND BILLS PAYABLES

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Trade payables | 15,394 | 16,037 |
| Bills payable | 250,000 | 180,130 |
| Total | 265,394 | 196,167 |

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

Ageing analysis of trade payables as at 30 June 2010 and 31 December 2009 is as follows:

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| 0 - 30 days | 8,987 | 8,211 |
| 31 - 90 days | 3,229 | 4,110 |
| 91 - 365 days | 414 | 845 |
| 1 year - 2 years | — | 2,100 |
| 2 years - 3 years | 1,993 | 685 |
| Over 3 years | 771 | 86 |
| | 15,394 | 16,037 |

The trade and bills payables are denominated in RMB and their carrying amounts approximate their fair values as at 30 June 2010 and 31 December 2009.

As at 30 June 2010 and 31 December 2009, restricted bank deposits of RMB 244,975,000 and RMB 134,347,000 had been pledged as collateral for bank acceptance bills (Note 10).

As at December 2009, land use rights, buildings and investment properties with a total net book value of RMB 88,143,000 had been pledged as collateral for the Group's bank acceptance bills of RMB 36,000,000 (Note 5). As at 31 December 2009, a related party had also provided a personal guarantee of RMB26,000,000 to the banks in connection with these bank acceptance bills granted to the Group, the personal guarantee has been fully released upon the Listing of the Company.

## 14 ACCRUALS AND OTHER PAYABLES

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|---|---|
| Advances from customers | 30,401 | 22,981 |
| Accrued volume discounts to distributors | 8,761 | 5,179 |
| Value added tax and other tax payables | 4,506 | 11,437 |
| Salary and welfare payables | 4,790 | 8,508 |
| Accrued expenses | 7,774 | 4,637 |
| Payables for purchase of equipment | 1,620 | 1,493 |
| Amount due to a director (Note 27(d)) | — | 3,546 |
| Others | 3,450 | 3,108 |
| Total | 61,302 | 60,889 |

## 15 BORROWINGS

| | As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|---|---|
| Short term bank borrowings, secured | — | 70,000 |

All the borrowings are at fixed interest rate. All the borrowings are denominated in RMB and the fair values of the borrowings approximate their carrying amounts as at 31 December 2009.

As at 31 December 2009, inventories with a total net book value of RMB 75,780,000 had been pledged as security for short-term bank borrowings of RMB 40,000,000 (Note 7).

As at 31 December 2009, short-term bank borrowings amounting to RMB 20,000,000 were guaranteed by a related party.

The weighted average effective interest rate at 31 December 2009 was 5.46%. As at 31 December 2009, the Group's borrowings were repayable within one year.

The Group has the following facilities of borrowings and bank acceptance bills:

| | As at 30 June 2010 | | As at 31 December 2009 | |
|---|---|---|---|---|
| | Total RMB'000 | Undrawn RMB'000 | Total RMB'000 | Undrawn RMB'000 |
| Borrowings | 80,000 | 80,000 | 70,000 | — |
| Bank acceptance bills | 116,000 | 106,000 | 50,000 | — |
| | 196,000 | 186,000 | 120,000 | — |

## 16 DERIVATIVE LIABILITIES

On 8 July 2008, the Company issued warrants to Dalton and Pope which allow Dalton and Pope to subscribe for newly issued shares of the Company up to 121,520 and 182,280 ordinary shares of the Company respectively at a purchase price of US$ 7.90 per share (the "Warrants") or, instead of exercising the Warrants for cash, to receive a reduced number of shares by surrender of the Warrants to the Company prior to the Listing of the Company, subject to adjustments pursuant to the terms of the Warrants in respect of the capitalisation issue of shares described in Note 12(d). The Warrants shall be exercisable until the closing date of a qualified public offering (being a firm commitment underwritten registered public offering by the Company of its shares for listing on a stock exchange in accordance with the general terms and conditions approved in writing by the shareholders of a three-fourths majority in voting power of the outstanding shares) or the closing of a sale of the Company (whether by sale of shares, assets, or otherwise), whichever is earlier, and shall be void thereafter.

On 23 March 2010, Dalton and Pope exercised the Warrants by surrender of the Warrants to the Company. Accordingly Dalton and Pope were entitled to receive 148,916 shares and 223,374 shares respectively according to the terms and conditions of the Warrants. The fair market value of one share is HK$1.69 (after the capitalisation issue), being the final offer price per share under the Listing of the Company.

On 25 March 2010, the Company issued a total of 372,290 new shares to Dalton and Pope pursuant to the exercise of Warrants as described above.

The fair value of and the provision for the Warrants as at 31 December 2009 have been assessed by American Appraisal China Limited and there was no significant impact on the financial statements. Upon the issue of the 372,290 new shares to Dalton and Pope on 25 March 2010, the fair value of the shares amounting to RMB553,000 was credited to share capital and share premium and debited to the current period income statement (Note 12(f)).

## 17 REVENUE

Turnover of the Group comprises revenues recognised as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Sales of goods | | |
| - Retail | 338,777 | 196,895 |
| - Bulk distribution | 440,248 | 348,130 |
| including: | | |
| Sales to franchisees | 198,124 | 185,328 |
| Sales to other retailers and distributors | 242,124 | 162,802 |
| | 779,025 | 545,025 |
| Rendering of services | | |
| - Maintenance service | 1,445 | 1,983 |
| - Installation service | 5,345 | 2,248 |
| | 6,790 | 4,231 |
| Total revenue | 785,815 | 549,256 |

## 18 OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Promotion and store display income | **3,148** | 2,419 |
| Subsidies of transportation and old merchandise arising from the Change of the Old for New Program | **2,494** | — |
| Rental income | **499** | 327 |
| Government subsidies (i) | **4,502** | 313 |
| | **10,643** | 3,059 |

(i) The government subsidy income for the six months ended 30 June 2009 represented an amount of RMB313,000 granted by the Ministry of Social Security of Yangzhou City for the re-employment of laid-off workers of other companies and was not subject to any conditions. The government subsidy income for the six months ended 30 June 2010 comprised an amount of RMB3,000,000 granted by Government of Yangzhou City for the award of successfully Listing of the Company, an amount of RMB861,000 granted by the Ministry of Finance of Yangzhou City as finance subsidy, an amount of RMB351,000 granted by the Ministry of Social Security of Yangzhou City for the re-employment of laid-off workers of other companies and an amount of RMB290,000 granted by the Economic Development Zone of Huaqiao Town as the award of establishing of a new subsidiary. All of the government subsidies for the six months ended 30 June 2010 are not subject to any conditions.

## 19 OTHER LOSSES — NET

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Losses arising from the exercise of Warrants (Note 16) | **553** | — |
| Net exchange losses | **409** | — |
| Losses on disposal of property, plant and equipment, net | **1** | 13 |
| | **963** | 13 |

## 20 EXPENSES BY NATURE

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

| | Six months ended 30 June | |
|---|---|---|
| | 2010<br>RMB'000 | 2009<br>RMB'000 |
| Cost of merchandise before deducting supplier rebates | 835,372 | 559,965 |
| Supplier rebates | (190,865) | (100,263) |
| Taxes and levies on main operations | 1,368 | 1,083 |
| Employee benefit expenses - including the directors' emoluments | 18,536 | 8,551 |
| Pre-IPO Option Scheme expenses | 6,336 | — |
| Service charges | 2,769 | 1,897 |
| Operating lease expenses in respect of buildings and warehouses | 9,448 | 6,486 |
| Promotion and advertising expenses | 11,151 | 7,996 |
| Amortisation of land use rights (Note 5) | 218 | 137 |
| Depreciation of property, plant and equipment (Note 5) | 5,698 | 4,603 |
| Amortisation of investment properties (Note 5) | 318 | 318 |
| Amortisation of intangible assets (Note 5) | 364 | 1,135 |
| Utilities and telephone expenses | 2,650 | 1,854 |
| Transportation expenses | 4,534 | 2,230 |
| Entertainment fees | 2,519 | 1,355 |
| Travelling expenses | 4,026 | 1,298 |
| Office expenses | 1,569 | 487 |
| Provision for obsolescence on inventories | 830 | 1,069 |
| Write back of impairment on receivables | (1,243) | (79) |
| Property tax and other taxes | 713 | 182 |
| Professional fees relating to the Listing of the Company | 7,185 | 1,528 |
| Auditor's remuneration | 1,964 | 208 |
| Bank charges | 1,357 | 787 |
| Consulting expenses | 1,812 | 157 |
| Others | 7,698 | 1,303 |
| Total of cost of sales, selling and marketing expenses and administrative expenses | 736,327 | 504,287 |

## 21 FINANCE INCOME AND COSTS

| | Six months ended 30 June | |
|---|---|---|
| | 2010<br>RMB'000 | 2009<br>RMB'000 |
| Interest income on bank deposits | 1,320 | 1,903 |
| Finance expenses | | |
| - Interest expenses on short term borrowings | (2,545) | (1,463) |
| - Net foreign exchange loss | (762) | — |
| | (3,307) | (1,463) |
| Net finance (costs)/income | (1,987) | 440 |

## 22 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | 2010<br>RMB'000 | 2009<br>RMB'000 |
| Mainland China Enterprise Income Tax ("EIT") | | |
| - Current income tax | 999 | 8,354 |
| - Deferred income tax | 19,293 | 4,740 |
| | 20,292 | 13,094 |

### (a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the six months ended 30 June 2010 and 30 June 2009.

### (b) PRC enterprise income tax

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

### (c) PRC withholding income tax

According to the new CIT law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. Such withholding income tax is included in deferred income tax.

## 23 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. In determining the weighted average number of ordinary shares in issue during the six months ended 30 June 2010 and 30 June 2009, the 730,000,000 shares issued and allotted through capitalisation of the share premium account arose from the Listing of the Company on 25 March 2010 (Note 12(d)) have been regarded as if these shares were in issue since 1 January 2009.

| | Six months ended 30 June | |
|---|---|---|
| | 2010 | 2009 |
| Profit attributable to equity holders of the Company (RMB'000) | 36,271 | 34,667 |
| Weighted average number of ordinary shares in issue (thousand) | 909,678 | 750,000 |
| Basic earnings per share (RMB cents) | 3.99 | 4.62 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under the Pre-IPO Option Scheme (Note 12(g)) and the Warrants (Note 16) assuming they were exercised.

| | Six months ended 30 June | |
|---|---|---|
| | 2010 | 2009 |
| Profit attributable to equity holders of the Company (RMB'000) | 36,271 | 34,667 |
| Weighted average number of ordinary shares in issue (thousand) | 909,678 | 750,000 |
| Adjustment for: | | |
| - Share options granted under the Pre-IPO Option Scheme (thousand) | 9,996 | — |
| - Warrants (thousand) (Note 16) | 136 | 304 |
| Weighted average number of ordinary shares for diluted earnings per share (thousand) | 919,810 | 750,304 |
| Diluted earnings per share (RMB cents) | 3.94 | 4.62 |

## 24 DIVIDEND

In March 2010, the board of directors of the Company approved to declare a one-off and non-recurring dividend of approximately HK$46,600,000, equivalent to RMB40,980,000, arising from the PRC subsidiaries, payable to the shareholders of the Company as of 6 March 2010 on the condition that the Listing of the Company is completed.

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (2009: Nil).

## 25 OPERATING LEASE COMMITMENTS

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

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

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Not later than 1 year | 26,540 | 17,586 |
| Later than 1 year and not later than 5 years | 93,431 | 54,301 |
| Later than 5 years | 49,321 | 33,912 |
| | 169,292 | 105,799 |

## 26 FUTURE OPERATING LEASE RENTALS RECEIVABLE

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

| | As at | |
|---|---|---|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Not later than 1 year | 1,185 | 1,339 |
| Later than 1 year and not later than 5 years | 2,013 | 2,509 |
| Later than 5 years | 189 | 191 |
| | 3,387 | 4,039 |

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

## 27 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

### (a) The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the periods presented

| Name | Relationship with the Group |
|---|---|
| Mr. Cao Kuanping | Ultimate shareholder of the Company / Director |
| China Fund | Significant influence over the Company |
| ARC Huiyin | Significant influence over the Company |
| Mr. Clement Kai Yin Kwong | Director |

### (b) Transactions with related parties

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

| | Six months ended 30 June | |
|---|---|---|
| | 2010<br>RMB'000 | 2009<br>RMB'000 |
| **Continuing transactions:** | | |
| **- Rental expenses to a related party** | | |
| Mr. Cao Kuanping | 525 | 525 |
| **- Directors' emoluments** | | |
| Salaries, bonus and other welfares | 7,827 | 989 |
| **Discontinued transactions:** | | |
| **- Consulting expenses to a related party** | | |
| Mr. Clement Kai Yin Kwong | 160 | 80 |
| **- Bank borrowings guaranteed by a related party (Note 15)** | | |
| Mr. Cao Kuanping | – | 20,000 |

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

## 27 RELATED PARTY TRANSACTIONS *(continued)*

### (c) Key management compensation

| | Six months ended 30 June | |
|---|---|---|
| | 2010<br>RMB'000 | 2009<br>RMB'000 |
| Salaries and other allowances | 1,155 | 937 |
| Bonuses | 250 | 2 |
| Social security costs | 86 | 50 |
| Pre-IPO Option Scheme expenses | 5,196 | — |
| | 6,687 | 989 |

### (d) Balances with related parties

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

| | As at | |
|---|---|---|
| | 30 June<br>2010<br>RMB'000 | 31 December<br>2009<br>RMB'000 |
| **Balances due from related parties:** | | |
| Prepayments, deposits and other receivables (Note 9) | | |
| - China Fund | 6,249 | — |
| - ARC Huiyin | 5,112 | — |
| - Mr. Clement Kai Yin Kwong | — | 160 |
| | 11,361 | 160 |

| | As at | |
|---|---|---|
| | 30 June<br>2010<br>RMB'000 | 31 December<br>2009<br>RMB'000 |
| **Balances due to related parties:** | | |
| Accruals and other payables (Note 14) | | |
| - Mr. Cao Kuanping | — | 3,546 |
| Salaries and bonuses payable to directors | | |
| - Mr. Cao Kuanping | — | 3,288 |
| - Mr. Mao Shanxin | — | 22 |
| - Mr. Mo Chihe | — | 32 |
| - Mr. Wang Zhijin | — | 78 |
| | — | 3,420 |

The balance as at 31 December 2009 due to Mr. Cao Kuanping mainly represented miscellaneous payments that Mr. Cao Kuanping paid on behalf of the Group. It was settled in March 2010.

## 28 CONTINGENCIES

The Group had no significant contingencies as at 30 June 2010 and 31 December 2009.