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

ANNUAL REPORT 2010

CONTENTS

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

Non-executive Director
Mr. Li Jung-Hsing

Independent Non-executive Directors
Mr. Li Fei
Mr. Zhou Shuiwen
Mr. Tam Chun Chung

Company Secretary
Ms. Ngai Kit Fong

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
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Ms. Ngai Kit Fong

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Stock Code
1280

Website Of The Company
www.hyjd.com
(information on the website does not form part of this annual report)

FINANCIAL AND OPERATIONAL HIGHLIGHTS

HIGHLIGHTS

1 Revenue in 2010 was RMB1,784.5 million, an increase of 43.01% compared with 2009.

2 Gross profit increased 55.51% to RMB320.5 million (2009: RMB206.1 million).

3 Gross profit margin in 2010 was 18.0%, while that of 2009 was 16.5%.

4 Operating profit was approximately RMB141.8 million for 2010. If the impact of Pre-IPO Option Scheme expenses and professional fees for the Listing of the Company is excluded, operating profit would be approximately RMB165.1 million for 2010, increased by RMB35.2 million compared with 2009.

5 Profit for the year was approximately RMB94.0 million. If the impact of Pre-IPO Option Scheme expenses and professional fees for the Listing of the Company is excluded, profit for the year would be approximately RMB117.3 million, increased by 20.43% from RMB97.4 million of 2009.

6 As at 31 December 2010, we have a total of 53 self-operated stores, an increase of 96.3% from 27 stores at the end of 2009. Retail revenue represented 43.1% of the total revenue of the Group for 2010 (35.3% in 2009).

7 In November 2010, we took over the local home appliance stores from an entity in Huainan and increased the number of retail stores by 6 in Anhui Province.

8 In September 2010, we acquired the entire interest in an entity in Hefei, the principal business of which was the distribution of certain brand's products in Anhui Province.

CHAIRMAN'S STATEMENT

Cao Kuanping
Chairman

On 25 March 2010, Huiyin Household Appliances (Holdings) Co., Ltd. was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") and received positive response from investors at large. Thanks to the enormous efforts of all staff of the Group and support from all parties.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company"), together with its subsidiaries (the "Group" or "Huiyin Household Appliances") experienced an encouraging year of 2010 on a steady ride. On 25 March 2010, Huiyin Household Appliances was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK") and received positive response from investors at large, thanks to the enormous efforts of all staff of the Group and support from all parties. The public offer of the Company's shares was nearly 600 times oversubscribed and the share price was up about 44% on the first day of trading, making the new stock the one with the biggest surge in the first half of 2010. Meanwhile, we felt highly honoured that Huiyin Household Appliances was awarded the "Triple A Awards - 2010 Best Small Cap" by The Asset, an international financial magazine for our success in the unique business model adopted in self-operated stores, franchised stores, bulk distribution and after-sales services. The award also reflected the promising outlook for the third and fourth-tier household appliance market in China. Since its Hong Kong listing, the Company has shown improvement in its corporate governance, which has strengthened the Company's position as a leading retail chain operator and distributor of high-quality household appliances and consumer electronics in eastern China.

OPERATING RESULTS ON THE RISE

China's economy continued to pick up in 2010. The Group took opportunities in the local household appliance retail industry and boosted its brand recognition to further expand the retail network. Moreover, the Group was more proactive in enhancing the single-store profitability, strengthening management and improving after-sales services, which contributed to the rapid growth in the Company's businesses and upbeat results. During the year under review, the Group recorded revenue of RMB1,784.5 million, representing an increase of 43.01% from RMB1,247.8 million in 2009. The Group's profit attributable to equity holders in 2010 and 2009 were approximately RMB91.7 million and RMB 91.5 million respectively. Excluding the impact of pre-IPO Option Scheme expenses and professional fees for the Listing of the Company, the increase rate was approximately 19.46%. Basic earnings per share was RMB 9.36, representing a year-on-year decrease of 23.28% from RMB12.20.

The Group has been an authorized distributor under the Rural Appliance Rebate Program since February 2009 and an authorized seller and recycler under the Change of the Old for New Program since August 2009. During the past year, Huiyin Household Appliances continued to benefit from such favourable government policies. As more types of appliances were covered by the two programs and sales went up accordingly, the Group's consolidated gross profit margin increased to 18.0% in 2010 from 16.5% a year earlier.

With its rapid development, the Company was also delighted to share its profit with investors and reward shareholders for their trust in and support for the Group. Therefore, the board of directors proposed a final dividend payout of RMB17,822,000 for 2010.

TREMENDOUS OPPORTUNITIES

Boosting consumption has become a major measure to drive China's GDP growth. In 2010, the 12th five-year plan and the central economic work conference highlighted domestic demand as the fundamental driver of economic growth in a bid to achieve a balance between domestic demand and external demand as growth stimulator. Among all measures favourable to domestic demand, promoting urbanization and providing an appropriate spending environment are top priorities, while accelerating rural development and raising farmers' income and consumption were the focus of the economic policies for 2011. Such measures are expected to become a driver of the strong growth in the household appliance sales industry. According to figures from the National Bureau of Statistics of China, the Jiangsu's GDP in 2010 was about RMB4.0903 trillion, representing an increase of about 20.1% compared to 2009, while Anhui's GDP was about RMB1.2263 trillion for 2010, a 22.0% increase year-on-year. The combined GDP growth of the two provinces was higher than the national GDP of 16.7% in 2010. Jiangsu's urban household consumption expenditure per capita during 2010 was approximately RMB10,733.3, representing a 9.7% increase, while Anhui's rose 12.6% to approximately RMB8,697.4.

Huiyin Household Appliances was among the first to focus on Jiangsu Province and the surrounding third and fourth-tier markets to be in line with the government's favourable consumption policies, thus capturing market opportunities brought by the accelerated urbanization process. In addition, the Company achieved remarkable growth during the year under review by fully leveraging on its advantage as an authorized distributor under the Rural Appliance Rebate Program and the Change of the Old for New Program. Latest statistics released by the Bureau of Commerce of Jiangsu Province show that the Rural Appliance Rebate Program and the Change of the Old for New Program were a great success last year. The Rural Appliance Rebate Program in Jiangsu exceeded the target with total sales of RMB11.7 billion. As for the Change of the Old for New Program in the province, the sales volume was RMB25 billion, the highest in the country. In 2010, about 9.35 % and 26.09% of the Group's revenue were generated from sales of appliances under the Rural Appliance Rebate Program and the Change of the Old for New Program respectively, up about 3.35% and 17.69% from 2009 respectively.

UNIQUE BUSINESS MODEL

The key to success of the Group lies in its unique business model and its capability to apply this model to surrounding areas. The Group set up large self-operated stores in big cities and towns to enhance the brand awareness then expanded into surrounding rural areas in the form of franchised stores. This model, together with the distribution by agents, increased the overall gross profit margin. In the meantime, the extensive after-sales service network enhanced customer loyalty. The advantage of this business model was reflected by the dispersion of third and fourth-tier markets in China and the urbanization at difference paces. Due to the opening of new stores and acquisition activities, the Group's self-operated stores substantially increased from 27 in 2009 to 53 in 2010. The number of franchised stores was up by 7 to a total of 227 in 2010. The number of after-sales service outlets increased to 135 from 126. Obviously, the unique business model resulted in a rapid growth of the Group's business and fast expansion over the past years, and will still be one of the important strategies for the future development of the Group.

In September 2010, the Group marked another milestone in Anhui, a focus of its business. Yangzhou Huiyin Household Appliance Co., Ltd. of the Group, Xingfushu and a partner formed a joint venture company in Huainan, Anhui to jointly develop the local household appliance business, which facilitated Huiyin Household Appliances in its expansion in Anhui Province and strengthened its position in those markets.

IMPROVING CORPORATE GOVERNANCE

The board fully understands that good corporate governance is the cornerstone of business expansion of the Group, so it puts great effort into the groundwork. Enhancing corporate governance is a strategy to which the Company always adheres. Listed on the SEHK, the Company will improve its corporate governance gradually and make it on par with international standards. The Group will adhere to a complete system and procedure, and conduct reviews and make improvement from time to time in areas such as staff training, market planning, store management, financial management, information management, logistics management and after-sales services. The Group will also strive to raise its operating efficiency as well as risk resistance, and take the initiative to maintain real-time, effective communication with investors so as to increase transparency and safeguard the interest of investors.

JOINING HANDS TO CREATE BRIGHT FUTURE

Good relationships with suppliers are always crucial to the long-term growth of the Group and make us different from our competitors. Therefore, the Group will continue to maintain effective communication and close relationships with suppliers. The Group expects to open more new stores and seek new acquisitions in the third and fourth-tier markets in eastern China to expand its retail network. In order to enhance profitability and operating efficiency of self-operated and franchised stores, the Group will improve the quality of each outlet, increase supply and strengthen brand promotion , the Group will also further upgrade its information technology system, tighten its monitoring of sales at franchised stores and improve its logistics system.

All these achieved over the past year were attributed to the unreserved efforts of all staff and the support of shareholders and business partners. I, on behalf of the Board, would like to express my wholehearted thanks to all parties.

With the huge potential in the third and fourth-tier markets in China, the Group firmly believes in the future growth in the household appliance industry. Therefore, we are optimistic about our development. Huiyin Household Appliances will strive hard to become a leader in the third and fourth-tier markets and always keep in mind its mission to create value for the society, shareholders and employees.

Cao Kuanping
Chairman

Hong Kong, 25 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Increasing national consumption

Domestic consumption had become a lasting and essential driver of economic growth in China. In early 2010, the Chinese government reiterated that the expansion of residents' consumption was the focus of domestic demand expansion and constant economic growth. In its 12th five-year plan and the central economic work conference in 2010, the government proposed further improvement in consumption encouragement policies as the future focus. Such policies are nurturing a huge vibrant market environment. According to data from the National Bureau of Statistics of China, the total retail sales of consumer goods in the country for 2010 exceeded RMB1.54 trillion, representing a year-on-year growth of 18.4%. Retail sales of consumer goods in urban areas reached RMB1.34 trillion, representing a year-on-year growth of 18.8%, while those in rural areas reached RMB2.09 trillion, representing a year-on-year growth of 16.1%. According to consumption patterns, home appliances and audio and video equipment grew by 27.7%, which exceeded the national growth in retail sales of consumer goods. This reflects an optimistic outlook for the industry.

Meanwhile, China's booming growth in the consumer market reflected the rapid growth of the Chinese residents' income in recent years. In 2010, urban residents' disposable income per capita and rural residents' net income per capita were RMB19,109 and RMB5,919 respectively. In real terms, their respective year-on-year growth rates were 7.8% and 10.9%. Rural household income grew faster than urban household income for the first time since 1998, which shows a greater growth potential for the rural consumption market. The faster growth of rural household income also reflects the state's strengthened macroeconomic control and its determination to gradually raise the income level of rural residents. The effects of measures to speed up urbanization started to show.

Strengthening the development of the home appliance market

Over the past year, due to government measures to promote the development of the home appliance market and simulate domestic demand, as well as the steady growth of urban and rural household income, the Chinese home appliance industry achieved a stable and rapid growth. Moreover, the demand for home appliances went up because urban residents replaced their home appliances more often and home appliances became more common in rural areas. Among several policies aimed at encouraging consumption, the Rural Appliance Rebate Program and Change of the Old for New Program created favourable market conditions and huge business opportunities for the industry. According to statistics from the Ministry of Commerce, for the year ended at 31 December 2010, sales of products under the Rural Appliance Rebate Program were RMB173.2 billion, up 170% from approximately RMB64.0 billion in 2009, and the number of products sold was approximately 77 million units. Sales of refrigerators and colour TV units amounted to RMB56.74 billion and RMB48.85 billion respectively, taking the top two spots among all types of home appliances and accounting for 61% of total sales. Under the Change of the Old for New Program, the cumulative sales volume of new home appliances was approximately 32.22 million units in 2010 with revenue of approximately RMB121.1 billion and approximately 33.44 million units of old home appliances recycled.

The effective implementation of the above two favourable policies, which tapped into the rural consumption market that had huge potential, made important contribution to the development of the third and fourth-tier home appliance markets. With the government's increased efforts in early 2010 in substantially raising the price ceiling for several products under the Rural Appliance Rebate Program, sales of high-end products were boosted in the rural market, which resulted in a rapid rise in sales value and sale volume. Meanwhile, it was announced in June 2010 that the Change of the Old for New Program would be extended to 31 December 2011 and would include 19 new provinces and cities in addition to the original nine pilot provinces and cities to greatly increase the penetration rate of the home appliance industry in the rural market. As urbanization speeds up, the third and fourth-tier markets are expected to become a new source of growth in the Chinese home appliance industry.

Benefiting from strong growth of target markets

As shown by data from the Ministry of Commerce, the top 5 regions in terms of sales of products under the Rural Appliance Rebate Program in 2010 were Henan, Shandong, Anhui, Hebei and Jiangsu. Although the rural population of these five regions accounted for 31% of the total rural population in the country, sales of home appliances in such regions accounted for 44% of the national total. Latest statistics from the Bureau of Commerce of Jiangsu show that the cumulative sales volume of the products sold in Jiangsu under the Rural Appliance Rebate Program reached 4.89 million units, generating revenue of RMB11.7 billion. The growth rates of the sales volume and revenue, which were nearly two times the national average, accounted for 6.34% and 6.76% of the total sales volume and sales revenue in the country respectively. Under the Change of the Old for New Program, the total sales volume of products sold through appliance trade-ins in Jiangsu was approximately 6.81 million units with sales value of approximately RMB25.0 billion, the highest in China since the Change of the Old for New Program began in September 2009.

The Rural Appliance Rebate Program also achieved a great success in Anhui Province. The cumulative total sales volume under the Rural Appliance Rebate Program in the whole province reached approximately 7.70 million units with the sales value of nearly RMB18.0 billion in 2010. A province newly included in the Change of the Old for New Program in June 2010, Anhui saw a rapid growth in home appliance sales since then. As of 31 December 2010, the total sales volume of home appliances under the Program of Change of the Old for New Program was 0.79 million units with sales value of approximately RMB2.8 billion.

As the Group's major bases, both Jiangsu and Anhui Provinces are among the top 5 regions in terms of home appliance sales in the country, and are directly benefited from the Rural Appliance Rebate Program and the Change of the Old for New Program. The Group was an authorized distributor under the Rural Appliance Rebate Program and an authorized seller and recycler under the Change of the Old for New Program in Jiangsu Province. As at 31 December 2010, 56 of 227 franchised stores of the Group were qualified stores under the Rural Appliance Rebate Program. The above favourable consumption policies were in line with the Group's focus on the third and fourth-tier markets. As the rural market grew fast, the Group accurately grasped opportunities by establishing an extensive rural customer base and effectively increased its market share in strategic regions through a highly dense distribution network. On the other hand, the favourable national policies facilitated the development of the high-end market in rural areas and further improved the profitability of the Group. For the year ended 31 December 2010, approximately 9.35% and 26.09% of revenue of self-operated stores of the Group were generated from sales under the Rural Appliance Rebate Program and the Change of the Old for New Program respectively, up 3.35% and 17.69% respectively compared to a year earlier.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Unique business model

In unique conditions of the third and fourth-tier markets in China, the Group had already established an integrated business model covering retail (including self-operated stores and franchised stores), bulk distribution and after-sales services. The establishment of self-operated stores enabled the Group to be independent of suppliers and enhanced the awareness of the Huiyin brand. This, together with the extensive franchise network, helped the Group quickly expand into surrounding areas. In addition, the Group would be able to boost its overall gross profit, increase its pricing power and provide stable supply for retail stores by developing distribution business. Given the increasing demand for after-sales services in the target market, especially remote rural areas, the Group had been actively developing after-sales services and establishing an extensive and comprehensive after-sales service network to provide an additional source of income for the Group as well as enhance customer loyalty.

Leveraging on its effective use of existing resources, close relationships with suppliers and the favourable Rural Appliance Rebate Program and the Change of the Old for New Program, we achieved satisfactory results and recorded revenue growth in each business segment during the year under review.

1. **Retail business**

   - **Self-operated stores**

     The Group's self-operated stores provided a variety of products. Approximately 19,000 product models were available in our self-operated stores. During the year, the expansion of self-operated retail outlets was a highlight of the development of the Group. As at 31 December 2010, the number of self-operated stores of the Group reached 53, representing a substantial increase of 26 stores or 96.3% from a year earlier, and far ahead of the target of establishing 16 new self-operated stores by the end of 2011 as set at the time of the Company's listing. The Group opened 20 new self-operated stores in different areas such as Yangzhou, Taizhou and Suzhou in Jiangsu Province. In Anhui Province, one of the focuses of the Group's expansion, we rapidly expanded our network through merger and acquisition. In September 2010, Yangzhou Huiyin Household Appliance Co., Ltd., a wholly-owned subsidiary of the Group, Huainan Xingfushu Electronical Appliances Company Limited ("Xingfushu") and an independent third party Mr. Jin ("a JV partner") announced to form a joint venture company named Huainan Four Seas Huiyin Household Appliances Company Limited, which was mainly engaged in home appliance sales in Huainan, Anhui Province. By taking over the local retail stores of Xingfushu, the Group increased the number of stores by 6 in Anhui Province.

     In just one year, the Group opened a total of 10 new stores in Huainan, Chaohu, Chuzhou and Huangshan and other areas, which not only enhanced the awareness and influence of the Group in Anhui Province, but also laid a solid foundation for local expansion.

In response to demand in different regions, the Group strategically set up stores in different regions with adjustments to store locations, positioning and product variety. As at 31 December 2010, the Group owned 40 general stores, including its Yangzhou flagship store, offering a comprehensive range of products and brands; 4 shop-in-shop located in department stores mainly offering high-end home appliances and consumer electronics; and 9 stores selling air-conditioners or franchised brands.

As urbanization accelerated and living standards substantially improved, durable home appliances such as air-conditioners, refrigerators and washing machines quickly became more common, thereby gradually driving up the demand for mid-range and high-end products and stimulating sales of five major products at the self-operated stores of the Group. In addition, the Group as an authorized distributor and recycler under the Rural Appliance Rebate Program and the Change of the Old for New Program also benefited from the success of these programs in Jiangsu Province in 2010. During the year, revenue of the self-operated stores of the Group reached RMB769.4 million, up approximately 74.72% from the previous year.

- **Franchised stores**

  Most of the franchised stores of the Group are operated under the registered brand of Huiyin, offering more than 1,000 product models. During the year, the Group's franchise business made steady progress and the franchise network was continuously optimized. As at 31 December 2010, the Group had 227 franchised stores, increasing by 7 stores compared to 220 franchised stores as at 31 December 2009. 21 of them were new stores while 14 stores were shut down. In 2010, the growth rate of franchised stores was lower than that of self-operated stores mainly because the acceleration of urbanization in some areas contributed to the integration of some stores located in urban and rural areas, and the demography, consumption level, and local features of some areas made them not suitable for the development of franchised stores. In addition, the business focus of the Group for the year was the development of self-operated stores. Therefore, the strategic development of franchised stores of the Group focused on enhancement of store quality instead. The operation and management level of franchised stores were generally enhanced through the franchise consolidation management. During the year, the Group formed the first franchise consolidation management committee to speed up the full integration of franchised stores and self-operated stores in terms of, among other things, store image, product selection, booth design, promotion and service upgrade.

  In addition, the Group strengthened information exchange with franchisees and monitored real-time sales performance and inventory level of franchised stores by improving the resource planning system and store information management system. This enhanced the profitability and operating efficiency of franchised stores. As major bulk distribution clients of the Group, the revenue to the Group derived from franchised stores amounted to RMB448.2 million for the year ended 31 December 2010, up approximately 20.06% from the previous year and accounting for 25.1% of the total sales revenue of the Group.

- **Outlet network**

  To strengthen its position in the highly scattered third and fourth-tier markets, the Group adopted an expansion strategy with self-operated stores complementary to franchised stores to gradually penetrate into the target market. The Group was based in the third and fourth-tier cities. Since the opening of the first self-operated store in Yangzhou in 2003, the retail network of the Group had been rapidly expanding. As at 31 December 2010, Huiyin Household Appliances owned 53 self-operated stores in 31 cities/regions in Jiangsu and Anhui Provinces, 26 of which were new stores opened during the year. Together with franchised stores, there were a total of 280 retail outlets.

During the year, the Group was active in opening new stores in the existing regions and taking new acquisition opportunities to expand its outlet network in Jiangsu and Anhui Provinces. The number of retail outlets in Anhui Province increased by 6 upon completion of the acquisition of Xingfushu stores in Huainan, Anhui Province. As at 31 December 2010, the total number of self-operated stores and franchised stores in Anhui Province increased to 18 and the number of outlets in Jiangsu Province reached 262.

The distribution of self-operated stores and franchised stores as at 31 December 2010 is set out below:

	Self-operated stores	Franchised stores
Jiangsu Province		
Yangzhou	21	120
Taizhou	7	34
Suzhou	5	7
Huai'an	3	1
Zhenjiang	2	4
Nanjing	1	2
Yancheng	1	2
Changzhou	0	37
Wuxi	0	13
Lianyungang	0	1
Nantong	0	1
Sub-total	40	222
Anhui Province		
Huainan	6	0
Xuancheng	3	0
Chaohu	2	1
Chuzhou	1	4
Huangshan	1	0
Sub-total	13	5
Total	53	227

2. Bulk distribution business

Bulk distribution business and retail business of the Group were complementary to each other. Bulk distribution business provided stable and reliable supply for self-operated stores and franchised stores. As a sole supplier of franchised stores, the Group secured a stable source of income for its bulk distribution business. Currently, the Group was a bulk distributor of products for more than 20 internationally or domestically renowned brands. Leveraging on a deep understanding of preferences of consumers in the third and fourth-tier markets as well as an extensive sales network in target markets, which help the branded home appliances and consumer electronics deeply penetrate into such markets, the Group became a long-standing bulk distributor for these brands. In addition to maintaining good relationships with the existing client brands, the Group was also active in acquiring peers with growth potential to expand its branded product mix for distribution. On 1 September 2010, the Group acquired the entire interest in Hefei Jingmei Electrical Media Co., Ltd., the principal business of which was the distribution of Sharp products in Anhui Province. The acquisition was not only favourable to the growth of the distribution business of the Group in Anhui Province but also to the development of the retail business.

During the year, the Group assessed the sale performance of self-operated stores and the financial performance of bulk distribution business from time to time to identify branded product categories with higher growth potential. Furthermore, the Group obtained distribution rights for an international brand in Jiangsu Province in 2010 by maintaining mutually beneficial relationships with suppliers. The Group also expanded its distribution rights for different brands in different regions, Distribution rights for some international brands were gradually extended to other areas in Jiangsu and Anhui Provinces.

3. After-sales services

After-sales services were important to the continued expansion of the Group's retail and bulk distribution businesses. The group had an extensive network of service centers, offering a broad range of installation and maintenance services for products purchased from the Group or any other third party vendors. As at 31 December 2010, the Group operated and managed a total of 135 service centers, of which 10 were self-operated service centers and 125 were authorized service centers. The total number represented an increase of 7.1% from 126 service centers as at 31 December 2009, giving a ratio of 1 service center to approximately 2 stores.

As franchised stores continued to expand, the Group had a more far-reaching mission of promoting after-sales services in the rural market in addition to providing rural areas with high quality and affordable home appliances. During the year, the Group strived to raise the level of after-sales services through guarantees on after-sales services, devoting more resources to this kind of services to boost customers' satisfaction and brand reputation. In 2010, Huiyin Household Appliances was awarded "全國顧客滿意度十大品牌 (China Top 10 Brands by Customer Satisfaction)", reflecting high recognition of the Group's efforts by consumers.

The Group's advantage of after-sales services lied in providing professional integrated services of product installation, education and maintenance services and deep penetration into the rural market. During the year, the Group dispatched a team of experienced after-sales service staff to rural areas to provide consultation and maintenance services for customers and it was well received. This greatly enhanced the consumer confidence and recognition in the Group in the rural areas. In order to boost sales and gain trust from consumers in branded product quality, Huiyin Household Appliances launched "放心10年計劃(Ten-year Quality Assurance Program)", under which the Group provided long-term quality maintenance services covering various home appliances and thus greatly enhanced the durability of home appliances. As for air-conditioners, the key product of the Group, in addition to strict compliance with 11 air-conditioner installation standards promulgated by the state, the Group launched a large-scale air-conditioner checkup campaign in regions such as Jiangsu and Anhui Provinces and sent technical teams to maintain air-conditioners. As a result customers were satisfied and placed their trust in the Group. The Group also collaborated with experts from air-conditioner brands to work out different after-sales service plans to improve quality.

Diversified sales and marketing strategies

During the year, the Group adopted diversified marketing and brand strategies, including the promotion of brands and products through the mass media and the launch of promotion campaigns in different communities. During the year, the Group carried out visits across the country and conducted group purchase activities in self-operated stores in agreement with several home appliance brands. Different discounts were offered to customers based on the group purchase size, which resulted in buying sprees of home appliances. The Group invited celebrities to give live performance in many large promotion campaigns, which successfully attracted the attention of the public and increased the brand reputation, thus stimulating sales.

As for the Group's brand image, in addition to radio and TV advertisements, the Group also built a consistent corporate image with the use of the same logo and publicity materials in self-operated stores and franchised stores. The Group also carried out various community activities from time to time for face-to-face interaction with customers, thereby strengthening the relationship between the Group and customers to achieve the goal of enhancing the Huiyin brand image and its penetration into the community. In addition, the Group launched promotion activities during major festivals such as the Labour Day holiday, October Golden Week and New Year holiday, which were well received by customers.

Unique purchase strategy and close relationships with suppliers

Seeing an increasing consumer demand, the Group strived to provide a great variety of for customers and maintain a stable supply. Leveraging on its unique purchase strategy and good business relationships with suppliers, the Group ensured stable sources of goods for each retail outlet. By way of payment in advance to suppliers, COD or very short-term credit, the Group greatly improved the cash turnover of suppliers and reduced their financial risks, so the suppliers are willing to work with the Group. The purchase strategy also helped explore opportunities of collaborating with more high quality brands. In addition, the Group established a dedicated team to communicate with suppliers regularly and maintain efficient supply measures. As for product selection, the purchase department of the Group formulated a set of product testing and inspection indicators to strictly monitor the product quality and brand selection based on the brand promotion and consumption patterns of consumers.

Comprehensive logistics and inventory management

To distribute and sell products in relatively scattered third and fourth-tier markets, it is indispensable to establish comprehensive logistics facilities. Therefore, the Group attached great importance to the development of an effective logistics equipment and management system. The Group strategically selected satellite cities where the population in surrounding areas was relatively dense with good residential conditions and facilities for the opening of stores and committed to building a logistics center in every range of 150 kilometers in order to improve the logistics network of the Group in such regions. Furthermore, the Group adopted a corporate resource planning system to allow two-way access to the information system of its headquarters and distribution centers for the central monitoring on distribution outlets scattered around different areas. This closely connected logistics framework was complementary to delivery executed by a professional team of the Group or independent contractors not only reduced the delivery cost of the Group but also increased efficiency of transport. As at 31 December 2010, the Group owned 16 warehouses and distribution centers covering a total area of more than 36,000 square meters and providing services for stores in surrounding areas.

Upgrade of information technology system

As a vital support for the Group's operation, the information system should be improved from time to time in line with the growth of the Group. Therefore, during the year, the Group upgraded its information system, comprising optimized purchase, logistics and after-sales processes, financial enquiry and financial analysis in the system. Since the unified purchase and distribution system of the Group was launched online, the process of purchase and distribution of its strategically branded goods had been optimized, thereby strengthening the communication and data exchange with franchisees. In addition, the Group upgraded its information system in line with the rapid development of the Group's business to, on the one hand, greatly enhance efficiency of operations and sales and, on the other hand, save time on administrative work.

Top-talent workforce

As the Group successfully ventured into the Hong Kong capital market and the business grew rapidly in line with the demand for talents resulting from the revamp of Huiyin's brand and store images, the Group attached great importance to the development of talents. The Group followed its tradition in good training and carried out various training courses, covering, among other things, product knowledge, sales and management skills and personal skills which benefited employees at all levels of the Group. In 2010, the Group organized 108 training sessions with more than 8,000 participants. With the establishment of Huiyin Business School in June 2010, the Group became the first home appliance retailer having its "Corporate University" in third and fourth-tier home appliance markets. The Group built a platform composed of a set of standardized, systematic and differential education and training for employees. In addition, the Group introduced qualified technicians from time to time to strengthen the team. The number of the Group's employees substantially increased to 1,624 as at 31 December 2010 from 841 as at 31 December 2009.

FINANCIAL REVIEW

Revenue

During the year, 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 RMB1,784.5 million, representing an increase of 43.01% from RMB1,247.8 million in 2009.

Turnover of the Group comprises revenues by operation as follows:

	2010		2009	
	RMB'000		RMB'000	
Retail	**769,364**	**43.1%**	440,331	35.3%
Bulk distribution				
– Sales to franchisees	**448,167**	**25.1%**	373,294	29.9%
– Sales to other retailers and distributors	**552,259**	**31.0%**	425,086	34.1%
Rendering of services	**14,660**	**0.8%**	9,114	0.7%
Total revenue	**1,784,450**	**100.0%**	1,247,825	100.0%

During the year, 27 self-operated stores of the Group which already operated in 2009 accounted for 50.94% of the total number of the self-operated stores at the end of the year. 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 year, 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 year, sales to other retailers and distributors increased mainly due to an increase in sales volume because 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 year:

	2010 RMB'000		2009 RMB'000	
Air-conditioners	**1,100,581**	**62.2%**	838,566	67.7%
TV sets	**324,918**	**18.4%**	195,756	15.8%
Refrigerators	**142,883**	**8.1%**	88,164	7.1%
Washing machines	**91,170**	**5.1%**	47,008	3.8%
Other small appliances	**110,238**	**6.2%**	69,217	5.6%
Total revenue	**1,769,790**	**100.0%**	1,238,711	100.0%

The percentage of air-conditioner sales in retail business was much lower than that in bulk distribution business. As the percentage of retail sales increased in 2010, the percentage of revenue derived from sales of air-conditioners decreased accordingly.

Cost of sales

Cost of sales increased by approximately 40.53% from RMB1,041.7 million for 2009 to RMB1,464.0 million for 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 since the second half of 2009.

Gross profit

As a result of the above principal factors, our gross profit increased by approximately 55.51% from RMB206.1 million for 2009 to RMB320.5 million for 2010.

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

	2010	2009
Retail	**23.5%**	22.8%
Bulk distribution	**13.5%**	12.8%
– Sales to franchisees	**15.8%**	14.1%
– Sales to other retailers and distributors	**11.6%**	11.7%
Rendering of services	**33.4%**	34.7%
Overall	**18.0%**	16.5%

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 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.

Gross profit margin of the Group by product categories is as follows:

	2010	2009
Air-conditioners	**17.5%**	18.2%
TV sets	**17.9%**	13.0%
Refrigerators	**15.9%**	10.0%
Washing machines	**16.8%**	10.0%
Other small appliances	**24.3%**	16.5%
Overall	**17.8%**	16.4%

Under our bulk distribution operation, merchandise are often sold to our franchisees and other third parties with volume discounts. The volume discounts are assessed based on the anticipated annual purchases by a particular customer and periodic discount policy agreed between the customer and us in advance. Due to the development of bulk distribution business, such as new areas of certain brands, the Group provided larger amount of volume discounts to new customers in 2010, which led to the decrease of the gross profit margin of air-conditioners.

The gross profit margin of TV sets, refrigerators and washing machines increased primarily due to an increase in percentage of retail sales while the gross profit margin of retail operation was much higher than that of bulk distribution operation.

Other income

During the year, the Group recorded other income of approximately RMB16.1 million, representing an increase from RMB11.6 million 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 for the award of successfully Listing.

Selling and marketing expenses

During the year, the Group's total selling and marketing expenses amounted to approximately RMB96.8 million, representing an increase from RMB51.2 million in 2009, which was mainly due to the increase of the employee benefit expenses and other expenses related to newly opened retail stores in 2010, such as service charges, operating lease expenses, promotion and advertising and transportation expenses and etc.

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

	2010	2009
Employee benefit expenses	**0.86%**	0.35%
Service charges	**0.29%**	0.09%
Operating lease expenses in respect of buildings and warehouses	**1.09%**	0.95%
Promotion and advertising expenses	**1.49%**	1.22%
Depreciation of property, plant and equipment	**0.65%**	0.80%
Utilities and telephone expenses	**0.08%**	0.11%
Transportation expenses	**0.49%**	0.38%
Travelling expenses	**0.18%**	0.10%
Others	**0.29%**	0.11%
Total selling and marketing expenses	**5.42%**	4.11%

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.

Administrative expenses

During the year, the Group's total administrative expenses amounted to approximately RMB96.9 million, increasing from RMB41.3 million in 2009, which was mainly due to the increase of the employee benefit expenses, pre-IPO Option Scheme expenses and professional fees for the Listing of the Company, etc.

The following table sets out a summary for administrative expenses:

	2010	2009
Employee benefit expenses	**28,483**	12,811
Pre-IPO Option Scheme expenses	**15,840**	—
Operating lease expenses in respect of buildings	**5,510**	3,607
Utilities and telephone expenses	**5,013**	2,197
Travelling expenses	**4,113**	1,327
Professional fees for the Listing of the Company	**7,468**	4,809
Auditor's remuneration	**3,750**	276
Consulting expenses	**4,302**	373
Others	**22,395**	15,939
Total administrative expenses	**96,874**	41,339

The increase of the employee benefit expenses was mainly due to (i) an increase in salaries and welfare benefits for our management and administrative personnel; and (ii) an increase in the number of employees which was in line with the expanded business of the Group.

Finance (costs)/income - net

During the year, the Group's net finance costs was approximately RMB1.4 million, while there was approximately RMB1.8 million of net finance income in 2009, which was mainly due to the fact that less borrowings were incurred in 2009 compared with 2010.

Profit before income tax

During the year, the Group's profit before income tax was approximately RMB140.4 million, increased by approximately 10.64% from RMB126.9 million in 2009.

Income tax

During the year, the Group's income tax was approximately RMB46.4 million, representing 33.05% of the profit before income tax, compared with approximately RMB34.3 million, representing 27.02% of the profit before income tax in 2009. The higher effective income tax rate during the year was mainly due to certain non-deductible expenses, including Pre-IPO Option Scheme expenses and professional fees for the Listing of the Company.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders for 2010 and 2009 were approximately RMB91.7 million and RMB91.5 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 25.74%.

Cash and cash equivalents

As at 31 December 2010, the Group's cash and cash equivalents were approximately RMB181.6 million, representing a substantial increase from RMB18.2 million as at 31 December 2009, which was mainly due to the initial public offering of the Company's shares in March 2010.

Inventories

As at 31 December 2010, the Group's inventories amounted to approximately RMB276.4 million, increasing from RMB163.1 million as at 31 December 2009.

Prepayments, deposits and other receivables

As at 31 December 2010, prepayments, deposits and other receivables of the Group amounted to approximately RMB789.4 million, increasing substantially from RMB352.9 million as at 31 December 2009. This was mainly because the prepayments to suppliers for goods and rebates receivable from suppliers had both increased which was in line with the increase in the Group's turnover and business development.

Trade and bills receivables

As at 31 December 2010, trade and bills receivables of the Group amounted to approximately RMB167.0 million, increasing from RMB102.6 million as at 31 December 2009, which was mainly due to the increase of bills receivable. Trade and bills receivables turnover days were 28 days, which represented a slight increase compared with 20 days for 2009.

Trade and bills payables

As at 31 December 2010, trade and bills payables of the Group amounted to approximately RMB526.9 million, increasing from RMB196.2 million as at 31 December 2009, which was mainly due to the increase of bills payable. Trade and bills payables turnover days were 90 days, which represented a significant increase compared with 66 days in 2009. The increase of turnover days was in line with that of prepayments, as bills were widely used to settle the balances with suppliers.

Gearing ratio and the basis of calculation

The Group's gearing ratio as at 31 December 2010 and 2009 was 4.46% and 10.84% respectively. The decrease was mainly due to the change in borrowing and equity balances. The gearing ratio is equal to total borrowings divided by total balances of equity and borrowings.

Capital expenditure

During the year, capital expenditure of the Group amounted to approximately RMB76.3 million, increasing from RMB61.4 million in 2009.

Cash flow

During the year, net cash outflow from operating activities of the Group amounted to approximately RMB122.8 million as compared to RMB101.5 million in 2009. Higher net cash outflow from operating activities in 2010 was mainly due to the impact of increase in inventories and prepayments, deposits and other receivables, as well as trade and bills receivables.

Net cash outflow from investing activities amounted to approximately RMB39.6 million as compared to RMB24.1 million in 2009.

Net cash inflow from financing activities amounted to approximately RMB328.2 million, a substantial increase as compared to RMB62.0 million in 2009. This was mainly due to the net proceeds from initial public offering of the Company's shares in March 2010.

Capital structure

As at 31 December 2010, the Group's cash and bank balances were mainly held in Renminbi, and all the Group's short-term bank borrowings were denominated in Renminbi with fixed interest rate.

During the year, equity attributable to shareholders of the Group increased from RMB573.0 million to RMB1,057.0 million, which was mainly due to the IPO proceeds received from initial public offering of the Company's shares in March 2010.

Liquidity and financial resources

During the year, the Group's working capital, capital expenditure and cash for investments were funded from cash on hand, bank borrowings and IPO proceeds. As at 31 December 2010, the interest-bearing bank borrowings of the Group amounted to RMB50 million, all of which will be repayable in 2011.

Pledging of assets

As at 31 December 2010, the Group's pledged bank deposits and bills receivable amounted to RMB207.0 million and RMB50.0 million respectively. There is no other asset pledged.

Contingent liabilities

As at 31 December 2010, the Group had no contingent liabilities which have not been properly accrued for.

Capital commitments

As at 31 December 2010, the Group had no capital commitments.

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 bank deposits obtained from the IPO have recorded an exchange loss during the year. 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.

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. The offer price of the IPO was determined at HK$1.69 per share (being the highest point of the range of offer price as stated in the prospectus of the Company dated 12 March 2010) and the over-allotment option in the IPO was exercised in full. Net proceeds raised from the IPO were approximately HK$458.9 million (equivalent to approximately RMB403.5 million).

As stated in the prospectus of the Company dated 12 March 2010, if the offer price is determined at the highest point of the stated range or if the over-allotment option is exercised in full, the additional net proceeds shall be applied towards potential acquisitions and general working capital. Accordingly, as stated in our interim report, 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 centers 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 31 December 2010, our use of net proceeds raised from IPO was as follows:

	Net proceeds from IPO	
	Available to utilise (RMB million)	Utilised (up to 31 December 2010) (RMB million)
Expansion of retail network	137.9	137.9
Acquisitions of home appliances and electronics retail enterprises	178.3	21.3
Expansion of distribution and logistics centers in Jiangsu Province	48.4	10.0
Improving information and management systems	4.4	1.4
General working capital	34.5	34.5
	403.5	205.1

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

HUMAN RESOURCES

As at 31 December 2010, the Group had 1,624 employees, up 93.10% from 841 at 31 December 2009.

FINAL DIVIDEND

The board of directors of the Company has recommended to distribute a final dividend of HK 2.0 cents (equivalent to approximately RMB 1.7 cents) per share for the year ended 31 December 2010 (2009: Nil). Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 17 June 2011, the final dividend will be paid on or before 31 August 2011 to registered shareholders as at 17 June 2011.

OUTLOOK AND STRATEGY

In 2011, the Group expects that the Chinese government will continue to introduce policies for stimulating domestic demand and raising the income of urban and rural residents to drive the long-term economic growth, and that favourable government policies and the acceleration of urbanization will support the booming development of the home appliance retail sector and continue to create favourable market conditions for the third and fourth-tier markets, thus bringing great business opportunities to the Group.

In the future, the Group will continue to grasp opportunities and make use of its extensive sales network in the third and fourth-tier home appliance markets as well as its unique integrated business model and brand advantage to open more stores and speed up in boosting market share in target markets. The Group will also keep a close track of any changes in the consumer market and each sales uptrend to increase the capability of each store, thereby raising its overall profitability. Moreover, the Group will continue to keep a close eye on every opportunity to acquire its peers with growth potential in eastern China to extend its presence and increase its influence. Good relationships with suppliers are prerequisites for our business expansion. Therefore, it is one of the Group's focuses to maintain close connection and mutually beneficial relationships with suppliers.

Leveraging on its extensive experience in sales, customer service and logistics management, as well as the upgrade of information system and strengthening of personnel training across departments, the Group will be able to continue its efforts in increasing operating efficiency. Meanwhile, the Group will also strive to improve its logistics management system, continue the strategy of opening new stores in satellite cities, and try to accomplish its target of building logistics centers in each range of 150 kilometers. It is expected that the logistics cost will be effectively reduced upon completion of such logistics centers.

As for customer service, the Group will introduce diversified after-sales services at a higher level to meet the increasing demand for after-sales services in rural areas and encourage more consumers to become its long-term customers through promotion of membership, thereby building an extensive and stable customer base.

Since its establishment, the Group has always strived to become a leader in the third and fourth-tier home appliance markets. The excellent results achieved by the Group in 2010 have laid a solid foundation for the Group's future development. Good use of proceeds from the Company's Listing and realization of economies of scale will continue to enhance the profitability, operating efficiency and corporate governance of the Group to generate higher returns for shareholders and investors.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") since its Listing on 25 March 2010 (the "Date of Listing").

Throughout the period from the Date of Listing to 31 December 2010, the Company has complied with the code provisions as set out in the CG Code (to the extent that such provisions are applicable), except for the deviation from code provision A.2.1 which is explained in the relevant paragraph of this report.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that it complies with the CG Code and align with the latest developments.

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group.

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises nine members, consisting of five executive directors, one non-executive director and three independent non-executive directors:-

Executive directors:

Mr. Cao Kuanping, Chairman, Chief Executive Officer and member of the Remuneration Committee

Mr. Mo Chihe, member of the Nomination Committee

Mr. Mao Shanxin

Mr. Wang Zhijin, Chief Financial Officer

Mr. Lu Chaolin (appointed on 25 March 2011), Vice General Manager

Non-executive directors:

Mr. Li Jung-Hsing

Mr. Ke Shifeng (resigned on 25 March 2011)

Independent non-executive directors:

Mr. Li Fei, Chairman of the Nomination Committee and member of the Audit Committee and the Remuneration Committee

Mr. Zhou Shuiwen, Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee

Mr. Tam Chun Chung, Chairman of the Audit Committee

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Mr. Cao Kuanping, Chairman, Chief Executive Officer and Executive Director, is the brother-in-law of Mr. Mao Shanxin, Executive Director. Save as disclosed, there are no financial, business, family or other material/relevant relationships among members of the Board.

During the period from the Date of Listing to 31 December 2010, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG 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 CG Code. However, the Board considers 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.

Appointment and Re-election and Removal of Directors

Each of the executive directors of the Company is engaged on a service agreement for a term of three years commencing on 5 March 2010 for Mr. Cao Kuanping, Mr. Mo Chihe, Mr. Mao Shanxin and Mr. Wang Zhijin and on 25 March 2011 for Mr. Lu Chaolin. The appointment may be terminated by not less than six months' prior written notice.

Each of the non-executive director and independent non-executive directors of the Company are appointed for a specific term of one year commencing on 5 March 2010 and shall continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the appointment letters.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself / herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Nomination Committee

The Nomination Committee comprises three members, the majority of them are independent non-executive directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors;
- To identify suitable candidates for appointment as directors;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors; and
- To assess the independence of independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

The Nomination Committee met once during the period from the Date of Listing to 31 December 2010 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The attendance records of this meeting are set out under "Directors' Attendance Records" on page 29.

In accordance with the Company's Articles of Association, Mr. Wang Zhijin, having been appointed as executive director, Mr. Li Fei, Mr. Zhou Shuiwen and Mr. Tam Chun Chung, having been appointed as independent non-executive directors of the Company by the Board in March 2010 while Mr. Lu Chaolin, having been appointed as executive director of the Company by the Board in March 2011 shall retire and being eligible, offer themselves for re-election at the next forthcoming annual general meeting. In addition, every director shall be subject to retirement by rotation at least once every three years. Therefore, Mr. Cao Kuanping, Mr. Mo Chihe, Mr. Mao Shanxin and Mr. Li Jung-Hsing, being directors appointed in 2008, shall all retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 28 April 2011 contains detailed information of the directors standing for re-election.

Training and Continuing Development

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged where necessary.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management where necessary.

The Chief Executive Officer and Chief Financial Officer attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company's Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

Directors' Attendance Records

Under code provision A.1.1 of the CG Code, there should be at least four board meetings held per year.

As the Company was only listed on the Hong Kong Stock Exchange on 25 March 2010, only three regular meetings were held after the Listing. Starting from the year 2011, at least four regular meetings will be convened each year in compliance with the code provision A.1.1. On 25 March 2011, the Company held a regular Board meeting.

The attendance records of each director at the meetings of the Board, Nomination Committee, Remuneration Committee and Audit Committee during the period from the Date of Listing to 31 December 2010 are set out below:

	Attendance out of number of meetings			
Name of director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Cao Kuanping	3/3	—	1/1	—
Mo Chihe	3/3	1/1	—	—
Mao Shanxin	3/3	—	—	—
Wang Zhijin	3/3	—	—	*1/1
Li Jung-Hsing	3/3	—	—	—
Ke Shifeng (resigned on 25 March 2011)	3/3	—	—	—
Lu Chaolin (appointed on 25 March 2011)	—	—	—	—
Li Fei	2/3	1/1	1/1	1/1
Zhou Shuiwen	2/3	1/1	1/1	1/1
Tam Chun Chung	3/3	—	—	1/1

Model Code for Securities Transactions

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.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period from the Date of Listing to 31 December 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

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

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2010 are set out on pages 106 and 107 in note 30(a) to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee comprises three members, the majority of which are independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and the senior management for the year under review.

The Remuneration Committee held one meeting during the period from the Date of Listing to 31 December 2010 and the attendance records are set out under "Directors' Attendance Records" on page 29.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company and of the Group for the year ended 31 December 2010.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The Management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's and the Group's financial statements, which are put to the Board for approval.

Internal Controls

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

The Board has overall responsibility for the internal control system of the Group and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Group.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditor before submission to the Board;
- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor;
- To review the adequacy and effectiveness of the Group's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2010 and the interim results for the six months ended 30 June 2010, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditor.

The Audit Committee held one meeting during the period from the Date of Listing to 31 December 2010 and the attendance records are set out under "Directors' Attendance Records" on page 29.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 45 and 46.

For 2010, the remuneration of the Company's external auditor for the review of half-yearly interim financial information of the Group and audit of the annual consolidated financial statements of the Group was RMB3.75 million in aggregate.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees are available to answer questions at shareholder meetings.

The 2011 Annual General Meeting ("AGM") will be held on 17 June 2011. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.hyjd.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company or via email to huiyin@pordafinance.com.hk for any enquiries.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

GOING CONCERN

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting this annual report and the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2010.

GROUP REORGANISATION

The Company is a limited liability company incorporated in the Cayman Islands on 5 February 2008. Pursuant to a group reorganisation in preparation for listing on the Stock Exchange, the Company had become the holding company of the subsidiaries comprising the Group since 3 April 2008. Further details of the Group's reorganisation are set forth in the Company's listing prospectus dated 12 March 2010 (the "Prospectus"). Shares in the Company had been listed on the Main Board of the Stock Exchange since 25 March 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is a retail chain operator and distributor of quality home appliances and consumer electronic products.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 51.

The Company had declared a special dividend in March 2010 amounting to approximately HK$ 46,600,000, equivalent to RMB 40,980,000. The Company has not declared any interim dividend during the year. The Directors recommend the payment of a final dividend of HK 2.0 cents per share (equivalent to approximately RMB 1.7 cents per share) in respect of the year. Subject to the approval of shareholders at the AGM, the final dividend will be paid on or before 31 August 2011 to registered shareholders as at 17 June 2011.

The register of members of the Company will be closed from Tuesday, 14 June 2011 to Friday, 17 June 2011, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the entitlement to the proposed final dividend and for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 13 June 2011.

USE OF PROCEEDS FROM THE COMPANY'S LISTING

Details of the use of proceeds from the Company's Listing are set out on page 23 of this annual report.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Change in Equity on page 52 and in note 18 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law (2009 Revision) of the Cayman Islands ("Companies Law"), amounted to approximately RMB838.0 million, of which approximately RMB17.8 million has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set forth in note 8 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2010 are set out in note 24 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report have been:

Executive Directors

Mr. Cao Kuanping *(Chairman and Chief Executive Officer)*
Mr. Mo Chihe
Mr. Mao Shanxin
Mr. Wang Zhijin (appointed on 5 March 2010)
Mr. Lu Chaolin (appointed on 25 March 2011)

Non-executive Directors

Mr. Li Jung-Hsing
Mr. Ke Shifeng (appointed on 5 March 2010 and resigned on 25 March 2011)
Mr. Sun Liang (as alternate to Mr. Ke Shifeng, appointed and terminated on 5 March 2010)

Independent Non-executive Directors

Mr. Li Fei (appointed on 5 March 2010)
Mr. Zhou Shuiwen (appointed on 5 March 2010)
Mr. Tam Chun Chung (appointed on 5 March 2010)

Director

Mr. Kwong Clement Kai Yin (resigned on 5 March 2010)

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the AGM has entered or has proposed to enter into any service contracts with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors of the Company are set out in the "Directors' and Senior Management's Profile" section on pages 41 to 44.

CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

Mr. Wang Zhijin, an executive Director, was appointed as a director of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.), a wholly owned subsidiary of the Company, on 6 April 2010.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the period from the commencement of Listing of the Company's shares on the Stock Exchange to 31 December 2010 and up to the date of this 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 39 to the audited consolidated financial statements in this report, during the year ended 31 December 2010, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB800,000. The relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules on an annual basis in respect of the Group's annual aggregate amount of such rental expenses do 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.

LEGAL COMPLIANCE

In the prospectus of the Company dated 12 March 2010 in respect of its initial public offering, it was disclosed that 17 out of the then self-operated stores of the Group (excluding the 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 report, 16 out of such 17 self-operated stores had undertaken fire inspection tests. The Group has filed the applications for fire inspection tests with the relevant PRC authorities by the end of December 2010 after re-decoration of the enlarged leased area in respect of the remaining 1 self-operated store and expects that the fire inspection tests in respect of such self-operated store will be passed by the end of 2011.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests or short positions of the Directors and chief executives of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which had to be notified to the Company and the Stock Exchange under Division 7 and 8 of Part XV of the SFO (including interest 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 the 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	257,503,625 shares (L)	24.56%
	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%
Lu Chaolin	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, 3,000,000 Pre-IPO Options and 3,000,000 Pre-IPO Options to Mr. Cao Kuanping ("Mr. Cao"), Mr. Mo Chihe, Mr. Mao Shanxin, Mr. Wang Zhijin and Mr. Lu Chaolin, to subscribe for 25,000,000 Shares, 3,000,000 Shares, 10,000,000 Shares, 3,000,000 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.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 31 December 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	257,503,625	24.56%
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%

SHARE CAPITAL AND SHARE OPTION SCHEMES

Details of the movements in the share capital of the Company during the year are set out in note 17 to the consolidated financial statements.

On 5 March 2010, the Company has 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 31 December 2010 and as at the date of this report, no share option has been granted or agreed to be granted to any person under the Share Option Scheme.

The following directors and senior management 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"):

Name	Number of Pre-IPO Options As at 1 January 2010	Granted during the year	Exercised during the year	As at 31 December 2010	Approximate percentage of interest in the Company
Cao Kuanping - *Chairman and Executive Director*	—	25,000,000	—	25,000,000	2.38%
Mo Chihe - *Executive Director*	—	3,000,000	—	3,000,000	0.29%
Mao Shanxin - *Executive Director*	—	10,000,000	—	10,000,000	0.95%
Wang Zhijin - *Executive Director and Chief Financial Officer*	—	3,000,000	—	3,000,000	0.29%
Lu Chaolin - *Executive Director (appointed on 25 March 2011) and Vice General Manager*	—	3,000,000	—	3,000,000	0.29%
Gao Yuan - *General manager of Yangzhou Hengxin Air-conditioner Sales Co., Ltd.*	—	3,000,000	—	3,000,000	0.29%
Sun Qingxiang - *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 17 to the audited consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than those lease transactions set out in the paragraph headed "Continuing Connected Transactions", at the end of the year or at any time during the year, there was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director had, whether directly or indirectly, a material interest.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank loans and other borrowings as at 31 December 2010 are set out in note 21 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 16.9% of the Group's total revenue and sales to the largest customer accounted for approximately 7.2% of the Group's total revenue for year 2010. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 77.1% of the Group's total purchases and purchases from the largest supplier accounted for approximately 31.9% of the Group's total purchases for year 2010.

None of the Directors, their associates, or any shareholder which to the knowledge of the Directors own more than 5% of the Company's issued share capital has any interest in the Group's five largest suppliers or the Group's five largest customers.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in note 29 to the consolidated financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

AUDITOR

The financial statements were audited by PricewaterhouseCoopers who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the reappointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 25 March 2011

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

EXECUTIVE DIRECTORS

Mr. Cao Kuanping (曹寬平先生), aged 48, founder of our Group, Chairman, executive Director and Chief Executive Officer of our Company, is responsible for our overall sales, marketing, development and strategic planning. Mr. Cao has been a Director since 5 February 2008. He is also a member of the Remuneration Committee. He is the legal representative of our various Group companies. Mr. Cao has extensive experience in the home appliances and consumer electronic products industry of close to 16 years. Prior to the establishment of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) in 2002, Mr. Cao was the General Manager of both 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) and 揚州市廣陵區滙銀貿易有限公司 (Yangzhou Guangling District Huiyin Trading Co., Ltd.*), both of which were involved in the business of home appliances. In 2009, Mr. Cao obtained his executive MBA under the Tsinghua Executive MBA Program which is a part-time programme launched by Tsinghua University.

Mr. Mo Chihe (莫持河先生), aged 39, executive Director of our Company since 3 April 2008, is responsible for treasury management, cash management, and investment project. He is also a member of the Nomination Committee. He also works together with our chief financial officer on certain accounting aspects of our Group. Mr. Mo has been with us since the establishment of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) in May 2002. Mr. Mo is also a director of China Yinrui (HK) Investment Holding Company Limited and 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*). He has close to 11 years of experience in home appliances and consumer electronic products industry and in financial management. Mr. Mo was employed by 揚州造紙廠 (Yangzhou Paper Production Factory*) between 1995 and 1998 during which he obtained the qualification of corporate accountant (會計(企業)師) approved by Ministry of Personnel of the PRC (中華人民共和國人事部) and conferred by Ministry of Finance of the PRC (中華人民共和國財政部) in May 1997. He joined 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) as the financial manager in April 1999. Mr. Mo obtained a high diploma in planning and statistics of economic trading (經濟貿易系計劃與統計專業專科) from 江蘇農學院 (Jiangsu Agricultural College*) (currently known as 揚州大學農學院 (Agricultural College of Yangzhou University*)) in 1992.

Mr. Mao Shanxin (茅善新先生), aged 44, executive Director of our Company since 3 April 2008, is responsible for overall supervision and management of our franchising operation. Mr. Mao joined our Group since inception. Mr. Mao was responsible for overseeing the operation of our warehouse and distribution department and after-sales services department, and was a manager of our bulk distribution business, audit manager, and the manager of our head office. Mr. Mao is also a director of China Yinrui (HK) Investment Holding Company Limited. Prior to joining us, Mr. Mao was employed by 廣陵區百貨公司 (Guangling District Department Store*) as a salesman between 1987 and 1995. Mr. Mao completed 現代企業 CEO 項目管理高級研修班 (Advanced Training Course of Project Management for CEO of Contemporary Enterprises*), a part-time course launched by 清華大學 (Tsinghua University*) in 2003. He completed the studying of 工商管理 (MBA) 核心課程班 (the Core Course of Business Administration (MBA)*) which is a part-time course launched by 南京大學 (Nanjing University*) in 2009. Mr. Mao Shanxin is the brother-in-law of Mr. Cao Kuanping, our Chairman.

Mr. Wang Zhijin (王志瑾先生), aged 34, executive Director of our Company since 5 March 2010, is responsible for the overall financial management and investors' relationship management. Mr. Wang joined our Group as the chief financial officer of our Company in July 2008. Mr. Wang was appointed as a director of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) and China Yinrui (HK) Investment Holding Company Limited, both are wholly owned subsidiaries of the Company, on 6 April 2010 and 6 May 2010 respectively. Mr. Wang is a member of 中國註冊會計師協會 (The Chinese Institute of Certified Public Accountants*). He has over 12 years experience in finance and accounting. Mr. Wang was employed by PricewaterhouseCoopers as a junior auditor in 1998, and was subsequently promoted to audit manager. Prior to joining us in 2008, Mr. Wang was appointed in December 2006 as chief financial officer and assistant to the chairman of directors of Kingdom Holdings Limited (stock code: 528), which is a company listed on the Main Board of the Stock Exchange. Mr. Wang obtained his bachelor degree in accounting from 上海財經大學 (Shanghai University of Finance and Economics*) in June 1998.

Mr. Lu Chaolin (路朝林先生), aged 35, has been appointed as an executive Director of our Company with effect from 25 March 2011. Mr. Lu, currently a vice general manager of our Company, is in charge of the overall management of the Group's corporate clients. He joined the Company's predecessor, 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) as deputy general manager in 1999 and 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) as deputy general manager since its establishment in May 2002. Mr. Lu is the legal representative of 揚州恒信空調銷售有限公司 (Yangzhou Hengxin Air-conditioner Sales Co., Ltd.*), 揚州滙德電器營銷有限公司 (Yangzhou Huide Electronics Distribution Co., Ltd.*) and 鎮江滙澤電器銷售有限公司 (Zhenjiang Huize Household Appliance Sales Co., Ltd*), respectively. Mr. Lu was appointed as a director of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) and China Yinrui (HK) Investment Holding Company Limited, both are wholly owned subsidiaries of the Company, on 6 April 2010 and 6 May 2010 respectively. He attended and completed a 384-hour 高級工商管理總裁研修班 (Training Course of Business Administration and Management of Chief Executives*) launched by 清華大學繼續教育學院(the School of Continuing Education of Tsinghua University*), and comprised 160-hour physical attendance study and 224-hour long distance study. He also completed a nine-month MBA Core Course, Executive Development Programs launched by 南京大學 (Nanjing University*) in September 2009.

NON-EXECUTIVE DIRECTOR

Mr. Li Jung-Hsing (李榮興先生), aged 57, was appointed as a non-executive Director of our Company since 3 April 2008. Mr. Li was appointed as a Director pursuant to the shareholders' agreement dated 3 April 2008 entered into by Mr. Cao, China Houde Investment Co., Ltd., New Dame Limited, New Fellow Holdings Limited and our Company pursuant to which each of New Dame Limited and New Fellow Holdings Limited is entitled to appoint a Director. Upon Listing, the appointment of Mr. Li as a Director will be subject to re-election procedures as provided in the Articles of Association. Mr. Li joined ARC Advisors (HK) Limited ("ARC Advisors") in October 2006 and is currently an executive director for operations of ARC Advisors. He has over 20 years of experience in the retail operations of multinational entities in Asia. In 1997, Mr. Li was a store manager in the IKEA Division of Jardine Consumer Marketing Services Taiwan Ltd. Between October 1990 and January 1994, he was employed by Makro Taiwan Ltd. during which he was promoted to Non-food Commercial Director. Mr. Li obtained his bachelor of engineering degree from National Taiwan College of Marine Science and Technology (currently known as National Taiwan Ocean University) in 1977. In 2008, he obtained his Executive MBA, which is a part-time programme launched by 復旦大學 (Fudan University). Mr. Li was a non-executive director of New Focus Auto Tech Holdings Limited (stock code: 360), which is a company listed on the Main Board of the Stock Exchange, between May 2007 and 26 June 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Fei（李飛先生）, aged 53, was appointed as an independent non-executive Director of our Company since 5 March 2010. He is also the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee. He is a professor and tutor for postgraduate degree at 清華大學經濟管理學院市場營銷系 (Marketing Department of School of Economics and Management of Tsinghua University*). He is currently a deputy director of 清華大學經濟管理學院中國零售研究中心 (China Retail Research Centre of the School of Economics and Management of Tsinghua University*). Mr. Li has been active in researching in the areas of marketing management and the retail management for over 21 years. He obtained his bachelor of economics and master of economics degrees from 北京商學院 (Beijing Institute of Business*, currently known as 北京工商大學 (Beijing Technology and Business University*)) in 1983 and 1988, respectively. In 2002, Mr. Li obtained doctorate degree from the School of Business of 人民大學 (People's University*). Mr. Li was an independent director of 山東沃華醫藥科技有限公司 (Shandong Wohua Pharmaceutical Co., Ltd.*) (stock code: 002107), which is a company listed on Shenzhen Stock Exchange, between April 2006 and April 2009.

Mr. Zhou Shuiwen（周水文先生）, aged 44, was appointed as an independent non-executive Director of our Company since 5 March 2010. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. He joined 上海永宣創業投資管理有限公司 (Shanghai NewMargins Growth Investment Management Co., Ltd.*, formerly known as 上海聯創投資管理有限公司 (Shanghai Lianchuang Investment Management Co., Ltd.*)) ("Shanghai NewMargins") in 1999, and is currently one of the partners of Shanghai NewMargins. Mr. Zhou is a director of 珠海歐比特控制工程股份有限公司 (Zhuhai Orbita Control Engineering Co., Ltd.*) and 鄭州煤礦機械集團股份有限公司 (Zhengzhou Coal Mining Machinery Group., Ltd.*) since March 2008 and December 2008, respectively. He was also appointed as a supervisor of 江蘇聯環藥業股份有限公司 (Jiangsu Lianhuan Pharmaceutical Joint Stock Co., Ltd.*) (stock code: 600513), which is a company listed on Shanghai Stock Exchange, and 海南海藥股份有限公司 (Hainan Haiyao Pharmaceutical Joint Stock Co., Ltd.*) (stock code: 000566), which is a company listed on Shenzhen Stock Exchange between May 2006 and May 2009, and between May 2004 and May 2007, respectively. Mr. Zhou obtained his bachelor degree of engineering in bioengineering from 上海科學技術大學 (Shanghai University of Science and Technology, currently known as 上海大學 (Shanghai University*)) in 1989.

Mr. Tam Chun Chung（譚振忠先生）, aged 38, was appointed as an independent non-executive Director of our Company on 5 March 2010. He is also the chairman of the Audit Committee. Mr. Tam has more than 15 years of experience in the accounting and audit field. He has been a joint company secretary of 中國中鐵股份有限公司 (China Railway Group Limited*) (stock code: 390), which is a company listed on the Main Board of the Stock Exchange, since November 2007. Prior to joining 中國中鐵股份有限公司 (China Railway Group Limited*), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (stock code: 549), which is a company listed on the Main Board of the Stock Exchange, from September 2005 to November 2007. Between 2000 and 2005, he worked in the finance department in China Motion Telecom International Limited (stock code: 989), which is a company listed on the Main Board of the Stock Exchange, as an assistant manager, and was subsequently promoted to the position as a senior manager. From 1994 to 2000, Mr. Tam was employed by KPMG and was subsequently promoted to the position as an assistant manager. He has been a member of the Hong Kong Institute of Certified Public Accountants since December 1997 and a fellow of the Chartered Association of Certified Accountants since November 2002. Mr. Tam graduated from the Chinese University of Hong Kong in December 1994 with degree of bachelor of business administration.

* *The English names of the PRC entities mentioned in the directors' profile marked "*" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

SENIOR MANAGEMENT

Mr. Guo Guangzhong(郭廣忠先生), 33, is the assistant to the general manager of the Company, and is responsible for marketing and management of the Group's self-operated stores, and the overall management and implementation of the Group's businesses under the Rural Appliance Rebate Program and the Change of the Old for New Program. He joined the Group in December 2002. Mr. Guo obtained a high diploma in civil engineering and architecture from南京建築工程學院(Nanjing Institute of Architectural and Civil Engineering*, which was merged with other institutes to form 南京工業大學 (Nanjing University of Technology*)) in 2000. In 2006, he completed a 120-hour course of 零售賣場管理設計高級研修班 (the Advanced Level on Management and Design of Retail Premises*) launched by清華大學美術學院培訓中心(the Training Centre of the Academy of Fine Arts of Tsinghua University*).

Ms. Zhang Yun （張雲女士）, 31, head of the Group's after-sale service centre（售後服務中心總監）, is responsible for the overall management of the Group's after-sale service centre. She has been engaged in the home appliances and consumer electronic products distribution business for over six years. Prior to joining the Group in 2003, Ms. Zhang was employed by揚州蘇寧電器有限公司 (Yangzhou Suning Appliance Co., Ltd.*) to deal with after-sales works and was responsible for installation and maintenance works in Yangzhou between 2003 and 2004.

Mr. Gao Yuan（高源）, 37, general manager of Hengxin Air-Conditioner, is responsible for the overall management of Hengxin Air-Conditioner. Mr. Gao has close to 11 years of experience in the home appliances and consumer electronic products industry. Prior to joining our predecessor, Yangzhou Jiaojiadian, in 2000, Mr. Gao was employed by 揚州百信電器有限公司 (Yangzhou Baixin Electronics Co., Ltd*) and was responsible for sales of a specified brand of air conditioners in Yangzhou and Taizhou between March 1999 and May 2000. Mr. Gao is studying in a part-time undergraduate course with a major in accounting at南京審計學院繼續教育學院 (Nanjing Audit University Continuing Education*) and is expected to graduate in 2011.

Mr. Sun Qingxiang(孫清翔), 35, general manager of Huide Electronics, is responsible for the overall management of Yangzhou Huide. Mr. Sun joined our predecessor, Yangzhou Jiaojiadian, in 2001 and Yangzhou Huiyin since its establishment as business manager responsible for the development of and distribution in the network of towns and villages. He has close to 10 years of experience in the home appliances and consumer electronic products industry.

The English names of the PRC entities mentioned in the senior management' profile marked "" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
HUIYIN HOUSEHOLD APPLIANCES (HOLDINGS) CO., LTD.
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 119, which comprise the consolidated and Company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2011

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	18,228	18,664
Property, plant and equipment	8	140,539	116,587
Investment properties	9	24,092	24,728
Intangible assets	10	41,169	3,303
Deferred income tax assets	11	11,399	11,169
		235,427	174,451
Current assets			
Inventories	12	276,441	163,096
Trade and bills receivables	13	166,962	102,604
Prepayments, deposits and other receivables	14	789,442	352,896
Restricted bank deposits	15	206,976	134,347
Cash and cash equivalents	16	181,632	18,150
		1,621,453	771,093
Total assets		1,856,880	945,544
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	7,162	142
Reserves	18	1,049,810	572,813
		1,056,972	572,955
Non-controlling interests in equity		15,317	2,508
Total equity		1,072,289	575,463

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	1,722	39,352
Other non-current liabilities	23	5,455	—
		7,177	39,352
Current liabilities			
Trade and bills payables	19	526,850	196,167
Accruals and other payables	20	86,806	60,889
Dividend payable	34	275	—
Borrowings	21	50,000	70,000
Current income tax liabilities		80,278	3,673
Other current liabilities	23	33,205	—
		777,414	330,729
Total liabilities		784,591	370,081
Total equity and liabilities		1,856,880	945,544
Net current assets		844,039	440,364
Total assets less current liabilities		1,079,466	614,815

The notes on pages 54 to 119 are an integral part of these financial statements.

Cao Kuanping
Director

Wang Zhijin
Director

BALANCE SHEET OF THE COMPANY

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	24	435,330	435,330
Current assets			
Prepayments and other receivables	14	418,349	3,191
Dividends receivable		13,818	—
Cash and cash equivalents		1	—
		432,168	3,191
Total assets		867,498	438,521
LIABILITIES			
Current liabilities			
Accruals and other payables	20	22,058	15,018
Dividend payable	34	275	—
Total liabilities		22,333	15,018
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	7,162	142
Share premium	18	845,606	435,188
Other reserves	18	15,840	—
Accumulated losses	18	(23,443)	(11,827)
Total equity		845,165	423,503
Total equity and liabilities		867,498	438,521
Net current assets/(liabilities)		409,835	(11,827)
Total assets less current liabilities		845,165	423,503

The notes on pages 54 to 119 are an integral part of these financial statements.

Cao Kuanping
Director

Wang Zhijin
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Revenue	25	1,784,450	1,247,825
Cost of sales	28	(1,463,968)	(1,041,737)
Gross profit		320,482	206,088
Other income	26	16,074	11,647
Other losses — net	27	(1,090)	(52)
Selling and marketing expenses	28	(96,755)	(51,226)
Administrative expenses	28	(96,874)	(41,339)
Operating profit		141,837	125,118
Finance income		3,749	4,736
Finance costs		(5,145)	(2,936)
Finance (costs)/income — net	31	(1,396)	1,800
Profit before income tax		140,441	126,918
Income tax expense	32	(46,413)	(34,291)
Profit for the year		94,028	92,627
Attributable to:			
– Equity holders of the Company		91,719	91,477
– Non-controlling interests		2,309	1,150
		94,028	92,627
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	33	9.36	12.20
– Diluted	33	9.19	12.19
Dividends	34	58,802	—

The notes on pages 54 to 119 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Profit for the year	94,028	92,627
Other comprehensive income	—	—
Total comprehensive income for the year	94,028	92,627
Attributable to:		
– Equity holders of the Company	91,719	91,477
– Non-controlling interests	2,309	1,150
	94,028	92,627

The notes on pages 54 to 119 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		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 year 2009		—	—	—	—	91,477	91,477	1,150	92,627
Appropriation to statutory reserves		—	—	276	—	(276)	—	—	—
Dividends paid by a subsidiary to non-controlling interests		—	—	—	—	—	—	(50)	(50)
Balance at 31 December 2009		142	435,188	15,377	(88,917)	211,165	572,955	2,508	575,463
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 year 2010		—	—	—	—	91,719	91,719	2,309	94,028
Appropriation to statutory reserves	18	—	—	5,760	—	(5,760)	—	—	—
Capital contribution from non-controlling interests	36(a)	—	—	—	—	—	—	10,500	10,500
Issue of shares	17&18	7,020	410,418	—	—	—	417,438	—	417,438
Pre-IPO Option Scheme – value of employee services	28	—	—	—	15,840	—	15,840	—	15,840
Special dividend	34	—	—	—	—	(40,980)	(40,980)	—	(40,980)
Balance at 31 December 2010		7,162	845,606	21,137	(73,077)	256,144	1,056,972	15,317	1,072,289

The notes on pages 54 to 119 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from operating activities:			
Cash used in operations	35	(112,285)	(73,241)
Interest paid		(2,879)	(2,936)
Income tax paid		(7,668)	(25,291)
Net cash used in operating activities		(122,832)	(101,468)
Cash flows from investing activities:			
Acquisition of business, net of cash obtained	36(a)	(9,544)	—
Acquisition of subsidiary, net of cash acquired	36(b)	(1,822)	—
Purchase of land use rights	7	—	(8,000)
Purchase of property, plant and equipment		(30,654)	(20,785)
Purchase of intangible assets	10	(1,363)	(126)
Proceeds from disposal of property, plant and equipment	35	27	82
Interest received	31	3,749	4,736
Net cash used in investing activities		(39,607)	(24,093)
Cash flows from financing activities:			
Net proceeds from initial public offering (excluding the underwriter's fee, incentive fees and professional fees)		403,528	—
Special dividend paid by the Company	34	(40,705)	—
Distribution to a former investor of an acquired subsidiary	36(b)	(702)	—
Proceeds from bank borrowings	21	284,500	95,000
Repayments of bank borrowings	21	(304,500)	(25,000)
Dividend paid by a subsidiary to non-controlling interests		—	(50)
Professional fees paid relating to the Listing of the Company		(13,934)	(7,923)
Net cash generated from financing activities		328,187	62,027
Increase/(decrease) in cash and cash equivalents		165,748	(63,534)
Cash and cash equivalents at beginning of the year	16	18,150	81,684
Exchange differences on cash and cash equivalents		(2,266)	—
Cash and cash equivalents at end of the year	16	181,632	18,150

The notes on pages 54 to 119 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 in 2008:

(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.

1 GENERAL INFORMATION *(continued)*

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 consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative liabilities) at fair value through profit or loss.

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

The Reorganisation as described in Note 1 above has been accounted for as a reverse acquisition under HKFRS 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 have 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 below.

(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.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  The revised standard has been applied to the acquisition of the controlling interest in Huainan Four Seas and Hefei Jingmei on 1 November 2010 and 1 September 2010 respectively. See Note 36 for further details of the business combinations that occurred in 2010.

- 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 *(continued)*

- HKAS 17 (Amendment), 'Leases', effective on 1 January 2010. The amendment deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

- HKAS 36 (Amendment), 'Impairment of Assets', effective on 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating Segments' (that is, before the aggregation of segments with similar economic characteristics).

- HKAS 1 (Amendment), 'Presentation of Financial Statements', effective on 1 January 2010. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- HKAS 38 (Amendment), 'Intangible Assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) The following new/revised standards, 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' correct 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 or when they become effective. 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Except for the Reorganisation as described in Note 1, the acquistion method of accounting is used to account for the acquisition of subsidiaries by the Group. Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Accounting policy for contingent consideration is set out in Note 3.15.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Consolidation *(continued)*

(b) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the differences between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, board of directors, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions. Operating segments are not aggregated for financial reporting purposes unless the segment has similar economic characteristic and are similar in respect of the nature of products, the nature of production processes, the type or class of customers.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the applicable exchange rates quoted by the People's Bank of China prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) — net'.

3.4 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the period of the lease using the straight-line method.

3.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress (the "CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statements during the financial period in which they are incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Property, plant and equipment *(continued)*

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

	Depreciation life	Residual value
Buildings	40 years	5%
Machinery	10 years	5%
Motor vehicles	5 years	5%
Electronic and office equipment	5 years	5%
Leasehold improvements	5 to 8 years or the remaining term of any non-renewable lease, whichever is shorter	—

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other gains/(losses) - net', in the income statement.

3.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the entities in the Group, is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses. The cost less accumulated impairment and residual values of investment properties are depreciated on a straight-line basis over their estimated useful lives of 40 years.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 10 years.

(b) Regional sales license

Regional sales license arising from the acquisition of a subsidiary in year 2008 is initially recognised at fair value. Regional sales license has a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of regional sales license over the estimated useful lives of 20 months.

(c) Non-compete agreement

Non-compete agreement arising from the acquisition of a business in year 2010 is initially recognised at fair value. Non-compete agreement has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of non-compete agreement over the estimated useful lives of 5 years.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

3.8 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group has certain warrants which do not qualify for hedge accounting, changes in the fair value (if any) of these derivative instruments are recognised immediately in the income statement within 'other gains/(losses) — net'.

3.10 Inventories

Inventories comprise merchandise purchased for resale and low value consumables, and are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cost of merchandise, representing its purchase cost, is determined using a first-in-first-out basis. Supplier rebates are accrued as earned and are recorded initially as a reduction in inventories and subsequently reflected as a reduction in cost of sales when the related merchandise is sold. The supplier rebates are estimated by experience, which is assessed based on anticipated annual purchases from the suppliers and periodic policies granted by the suppliers, and are adjusted to the actual amounts when these become finalised.

3.11 Trade, bills and other receivables

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, bills and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and are grouped with bank overdrafts in the cash flow statement. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.14 Trade, bills and other payables

Trade, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.15 Contingent consideration

The Group classifies an obligation to pay contingent consideration for the acquisition of a business as financial liability at fair value through profit or loss. It is recognised initially at fair value at the acquisition date, and subsequently measured at fair value, with any resulting gain or loss recognised in “other gain / (losses) — net”.

Contingent consideration liabilities within one year and over one year are classified in other current liabilities and other non-current liabilities respectively.

3.16 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity in which case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.18 Employee benefits — pension obligations (defined contribution plan)

A defined contribution plan is a pension plan under which the Group pays contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

The Group has participated in defined contribution plans administered by the relevant authorities in the PRC for its employees. The Group is required to pay monthly contributions to these plans at certain percentage on relevant portion of the payroll of these employees to fund the benefits. The relevant authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees of the Group under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Share-based payments

The Group operates an equity-settled pre-IPO share option scheme, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3.20 Provision and contingent liability

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.20 Provision and contingent liability *(continued)*

A contingent asset is not recognised but is disclosed in the notes to the Group's financial statements when an inflow of economic benefits is probable. When inflows is virtually certain, an asset is recognised.

3.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities within the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods — bulk distribution

The Group sells a range of household appliances merchandise by bulk distribution to its franchisees, other retailers and distributors. Sales of goods are recognised when the merchandises have been transported to the specified location, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the merchandises in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The household appliance merchandises are often sold with volume discounts, and sales are recorded based on the price specified in the sales orders, net of the estimated volume discounts at the time of sale. Accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases and periodic policies granted to customers, and are adjusted to the actual amounts when these become finalised. No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with the market practice.

(b) Sales of goods — retail

The Group operates a chain of retail stores for selling household appliance merchandises. Sales of goods are recognised when a Group entity sells the merchandise to the customer. Retail sales are usually in cash or by credit card.

(c) Rendering of services

The Group renders maintenance and installation services to end customers. Revenue from services is recognised when services have been provided and the collectibility of the related receivables is reasonably assured.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue recognition *(continued)*

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Franchise fee income

Franchise fee income is recognised on an accruals basis in accordance with the substance of the relevant agreements. Such an income is amortised to the income statement on a straight-line basis over the franchise period.

(f) Promotion and store display income

Promotions and store display income is recognised when the services are provided and in accordance with agreements with relevant suppliers.

(g) Rental income

Rental income from renting of properties under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received.

(h) Dividend income

Dividend income is recognised when the right to receive payment is established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the cost that they are intended to compensate.

3.23 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights are charged to the income statement on a straight-line basis over the period of the lease.

3.24 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders or directors, where appropriate.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Cash flow and fair value interest rate risk

Other than bank deposits with stable interest rate (Notes 15 and 16), the Group has no other significant interest-bearing assets. Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at fixed rates of RMB 50,000,000 as at 31 December 2010 (2009: RMB 70,000,000), expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 21.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(b) Credit risk

Majority of the Group's sales are settled mainly in cash, credit card or check by its customers on delivery of goods. The carrying amounts of the bank balances, trade and bills receivables, deposits and other receivables after deducting the provision for doubtful debts best represent the maximum credit exposure of the Group.

(i) Deposits with bank

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

		As at 31 December	
	Rating (note)	2010 RMB'000	2009 RMB'000
Five largest restricted bank deposits			
– Bank of Nanjing	N/A	99,045	—
– Bank of Communications	BBB+	39,701	56,230
– Bank of China	A-2	34,040	—
– Agricultural Bank of China	A-1+	19,090	5,000
– Bank of Jiangsu	N/A	10,000	—
		201,876	61,230
Five largest cash and cash equivalents			
– Bank of Communications	BBB+	53,673	3,994
– Huaxia Bank	N/A	36,711	154
– Agricultural Bank of China	A-1+	19,865	4,781
– Bank of China	A-2	18,400	3,206
– Industrial and Commercial Bank of China	A-1	14,961	—
		143,610	12,135

Note:

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

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Receivables

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

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

Supplier rebates receivable are due from suppliers upon achievement of specified volume purchasing levels. Management assesses the credit risk of suppliers by taking into account their financial position and past collection experience. The Group keeps long-term relationship with those suppliers and the collection of the supplier rebates are closely monitored by senior officials of the Group.

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

The carrying amount of receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets. The Group did not experience any significant defaults by the debtors and landlords.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities from commercial banks and the ability to close out market positions.

The table below analyses the Group's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 3 months RMB'000	Between 3 to 6 months RMB'000	Between 6 to 12 months RMB'000
As at 31 December 2010			
Borrowings (Note 21)	—	—	50,000
Interest payments on borrowings (note)	695	695	1,390
Trade and bills payables (Note 19)	373,390	153,460	—
Accruals and other payables, excluding the advances from customers (Note 20)	27,661	—	—
	401,746	154,155	51,390
As at 31 December 2009			
Borrowings (Note 21)	—	20,000	50,000
Interest payments on borrowings (note)	956	863	522
Trade and bills payables (Note 19)	141,797	54,370	—
Accruals and other payables, excluding the advances from customers (Note 20)	32,729	—	5,179
	175,482	75,233	55,701

Note:

The interest payments on borrowings are calculated based on borrowings held as at 31 December 2010 and 2009 without taking into account of future borrowings.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings as shown on the consolidated balance sheet. Total capital is calculated as 'equity', as shown on the consolidated balance sheet, plus total borrowings.

The gearing ratios at 31 December 2010 and 2009 were as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Total borrowings (Note 21)	50,000	70,000
Total equity	1,072,289	575,463
Total capital	1,122,289	645,463
Gearing ratio	4.46%	10.84%

The changes in the gearing ratios during the years were primarily due to the changes in the borrowing balances.

4.3 Fair value estimation

The different levels of valuation method for financial instruments carried at fair value are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of contingent consideration arising from the business combination and derivative liabilities are measured at fair value by level 3 (Note 23 and Note 22).

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.7. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates (Note 10).

No impairment charge arose during the course of year 2010 for the cash-generating unit ("CGU") of Huainan Four Seas. If the budgeted discount rate used in the calculation for this CGU had been 2% higher than management's estimates (25% instead of 23%), the Group would have recognised an impairment of goodwill by RMB 3,643,000.

(b) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business, including whether the Group is eligible for a lower PRC withholding tax rate of 5% instead of 10% on the applicable unremitted earnings of its PRC entities. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As at 31 December 2010, the Group has deferred income tax assets in the amount of approximately RMB 11,399,000 (2009: RMB11,169,000); and deferred income tax liabilities of approximately RMB 1,722,000 (2009: RMB 39,352,000). To the extent it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from impairment provision of inventories and receivables, temporary differences arising from depreciation, certain accrual items and unused tax losses. However the outcome of their actual utilisation may be different.

Additionally, the Group has not recognized a deferred tax liability for certain unremitted earnings of its PRC subsidiaries. The Group believes it is able to control the timing of when the earnings will be distributed to the overseas holding companies and such distributions will not occur in the foreseeable future.

(c) Net realisable value of inventories

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Estimated impairment of non-financial assets

The Group follows HKAS 36 to determine whether non-financial assets have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The value in use calculations require the use of estimates.

(e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgments to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

If the discount rate used in the calculation on the fair value of contingent consideration liabilities (Note 23) had been 2% lower than management's estimate (21% instead of 23%), the carry amount of contingent consideration liabilities as at 31 December 2010 would be RMB 39,762,000, accordingly additional charges in "other gain / (losses) — net" of RMB 1,102,000 would be recognised.

(f) Estimate of fair value of investment properties for disclosure purpose

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

(g) Rebates from suppliers

The Group enters into agreements with various suppliers providing for inventory purchase rebates primarily upon achievement of specified volume purchasing levels. Some of these agreements apply to sales in a non-calendar year. The Group accrues the supplier rebates as earned and initially records them as a reduction in inventories and subsequently reflects them as a reduction in cost of sales when the related merchandise is sold, taking into consideration cumulative purchases of inventory to date and projected purchases through to the end of the qualifying period. The Group has agreements with numerous and geographically dispersed suppliers, and a slowdown in the markets in which the Group operates, or a significant change in the profile of products purchased may result in purchases for the remainder of the qualifying period differing significantly from those projected. Consequently the rebates actually received may vary from that accrued in the financial statements.

6 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 segment results for the year ended 31 December 2010 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	Other RMB'000	Unallocated* RMB'000	Group RMB'000
Segment revenue	769,364	1,754,732	14,660	—	2,538,756
Inter-segment revenue	—	(754,306)	—	—	(754,306)
Revenue	769,364	1,000,426	14,660	—	1,784,450
Operating profit/(loss)	91,387	63,919	4,903	(18,372)	141,837
Finance costs - net					(1,396)
Profit before income tax					140,441
Income tax expense					(46,413)
Profit for the year					94,028
Other segment items are as follows:					
Capital expenditure	60,042	16,280	—	—	76,322
Depreciation charge	6,279	7,020	—	—	13,299
Amortisation charge	985	1,264	—	—	2,249

6 SEGMENT INFORMATION *(continued)*

The segment results for the year ended 31 December 2009 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	Other RMB'000	Unallocated RMB'000	Group RMB'000
Segment revenue	440,331	1,248,638	9,114	—	1,698,083
Inter-segment revenue	—	(450,258)	—	—	(450,258)
Revenue	440,331	798,380	9,114	—	1,247,825
Operating profit	62,937	61,235	946	—	125,118
Finance income - net					1,800
Profit before income tax					126,918
Income tax expense					(34,291)
Profit for the year					92,627
Other segment items are as follows:					
Capital expenditure	10,558	50,860	—	—	61,418
Depreciation charge	6,156	4,947	—	—	11,103
Amortisation charge	923	1,906	—	—	2,829

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

6 SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2010 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	Other RMB'000	Group RMB'000
Segment assets	329,378	1,503,734	10,647	1,843,759
Unallocated assets				13,121
Total assets				1,856,880
Segment liabilities	63,603	584,718	3,766	652,087
Unallocated liabilities				132,504
Total liabilities				784,591

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
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 and corporate assets.

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

Capital expenditure comprises additions to property, plant and equipment, land use rights and intangible assets, including additions resulting from acquisitions through business combinations (Note 36).

7 LAND USE RIGHTS

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

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Opening net book amount	18,664	10,991
Additions	—	8,000
Amortisation (Note 28)	(436)	(327)
Closing net book amount	18,228	18,664
Cost	19,590	19,590
Accumulated amortization	(1,362)	(926)
Closing net book amount	18,228	18,664

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

Amortisation of the Group's land use rights has been charged to administrative expenses in the consolidated income statement.

As at 31 December 2010, no land use right had been pledged as collateral for any bank acceptance bills or bank borrowings. As at 31 December 2009, land use rights of RMB 10,718,000 together with certain buildings (Note 8) and investment properties (Note 9) had been pledged as collateral for bank acceptance bills of RMB 36,000,000 (Note 19).

8 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronics and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2009					
Cost	56,413	16,401	4,442	7,774	85,030
Accumulated depreciation	(2,887)	(3,549)	(1,659)	(4,350)	(12,445)
Net book amount	53,526	12,852	2,783	3,424	72,585
Year ended 31 December 2009					
Opening net book amount	53,526	12,852	2,783	3,424	72,585
Additions	35,463	3,672	1,381	12,776	53,292
Transfer in (Note 9)	1,947	—	—	—	1,947
Disposals (Note 35)	—	(10)	(124)	—	(134)
Depreciation (Note 28)	(2,996)	(1,527)	(874)	(5,706)	(11,103)
Net book amount	87,940	14,987	3,166	10,494	116,587
At 31 December 2009					
Cost	93,934	20,063	5,679	17,927	137,603
Accumulated depreciation	(5,994)	(5,076)	(2,513)	(7,433)	(21,016)
Net book amount	87,940	14,987	3,166	10,494	116,587
Year ended 31 December 2010					
Opening net book amount	87,940	14,987	3,166	10,494	116,587
Additions	11,129	4,875	4,427	16,815	37,246
Acquisition of a subsidiary (Note 36(b))	—	33	—	—	33
Disposals (Note 35)	—	(20)	(8)	—	(28)
Depreciation (Note 28)	(3,965)	(1,517)	(1,062)	(6,755)	(13,299)
Net book amount	95,104	18,358	6,523	20,554	140,539
At 31 December 2010					
Cost	105,063	24,926	10,079	34,742	174,810
Accumulated depreciation	(9,959)	(6,568)	(3,556)	(14,188)	(34,271)
Net book amount	95,104	18,358	6,523	20,554	140,539

8 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) Depreciation charges were included in the following categories in the consolidated income statement:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Selling and marketing expenses	11,659	9,955
Administrative expenses	1,640	1,148
	13,299	11,103

(b) As at 31 December 2010, no property, plant and equipment had been pledged as collateral for any bank acceptance bills or bank borrowings. As at 31 December 2009, buildings with net book amounts totalling RMB 52,697,000 had been pledged together with certain land use rights (Note 7) and investment properties (Note 9) as collateral for bank acceptance bills of RMB 36,000,000 (Note 19).

9 INVESTMENT PROPERTIES

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
At 1 January	24,728	27,311
Transfer out (Note 8)	—	(1,947)
Amortisation (Note 28)	(636)	(636)
Closing net book amount	24,092	24,728
Cost	26,796	26,796
Accumulated amortisation	(2,704)	(2,068)
Closing net book amount	24,092	24,728

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 28,400,000, had they been stated at fair values as of 31 December 2010 (2009: RMB 28,300,000). Such fair values of the investment properties were based on revaluations performed by American Appraisal China Limited, an independent and professional qualified valuer. 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.

As at 31 December 2010, no investment properties had been pledged as collateral for any bank acceptance bills or bank borrowings. As at 31 December 2009, investment properties with a net book amount of RMB 24,728,000 had been pledged together with certain land use rights (Note 7) and buildings (Note 8) as collateral for the Group's bank acceptance bills of RMB 36,000,000 (Note 19).

The depreciation of investment properties has been charged to administrative expenses.

10 INTANGIBLE ASSETS

	Goodwill RMB'000	Regional sales license RMB'000	Non-compete agreement RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2009					
Cost	—	2,997	—	4,340	7,337
Accumulated amortisation	—	(1,798)	—	(496)	(2,294)
Net book amount	—	1,199	—	3,844	5,043
Year ended 31 December 2009					
Opening net book amount	—	1,199	—	3,844	5,043
Additions	—	—	—	126	126
Amortisation (Note 28)	—	(1,199)	—	(667)	(1,866)
Closing net book amount	—	—	—	3,303	3,303
At 31 December 2009					
Cost	—	2,997	—	4,466	7,463
Accumulated amortisation	—	(2,997)	—	(1,163)	(4,160)
Net book amount	—	—	—	3,303	3,303
Year ended 31 December 2010					
Opening net book amount	—	—	—	3,303	3,303
Additions	—	—	—	1,363	1,363
Acquisition of business (Note 36(a))	34,060	—	3,620	—	37,680
Amortisation (Note 28)	—	—	(121)	(1,056)	(1,177)
Closing net book amount	34,060	—	3,499	3,610	41,169
At 31 December 2010					
Cost	34,060	—	3,620	5,829	43,509
Accumulated amortisation	—	—	(121)	(2,219)	(2,340)
Net book amount	34,060	—	3,499	3,610	41,169

The amortisation of intangible assets has been charged to administrative expenses.

10 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill

Goodwill is allocated to the group's CGU identified according to operating segment. Goodwill of RMB 34,060,000 is allocated to the CGU of Huainan Four Seas.

The recoverable amount of a CGU is determined based on higher of value-in-use and fair value less costs to sell calculations. Management determined recoverable amount based on fair value less costs to sell, which is higher than the value-in-use calculations, as the revenue contributing from new stores to open had been taken into the consideration. These calculations use income approach-discounted pre-tax cash flow method based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for fair value less costs to sell calculation as at 31 December 2010 are as follows:

	Year ended 31 December					After
	2011	2012	2013	2014	2015	2015
Growth rate of existing scale	10%	10%	10%	10%	10%	Nil
Growth of revenue resulting from new stores to open	61%	30%	11%	5%	1%	Nil
Terminal growth rate	Nil	Nil	Nil	Nil	Nil	3%
Discount rate	23%	23%	23%	23%	23%	23%

The growth rates of existing scale used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

No impairment charge arose during the course of year 2010.

11 DEFERRED INCOME TAX

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

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Deferred income tax assets:		
- to be recovered within 12 months	7,459	3,772
- to be recovered after more than 12 months	3,940	7,397
	11,399	11,169
Deferred income tax liabilities:		
- to be settled within 12 months	1,722	38,323
- to be settled after more than 12 months	—	1,029
	1,722	39,352

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

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
At beginning of the year	(28,183)	(6,180)
Recognised in the consolidated income statement (Note 32)	37,860	(22,003)
At end of the year	9,677	(28,183)

11 DEFERRED INCOME TAX *(continued)*

The movement in deferred income tax assets and liabilities during the year, 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	Unrealised profits elimination RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	3,658	2,761	1,569	457	417	2,888	11,750
Recognised in the consolidated income statement	(579)	(1,466)	222	362	(161)	1,041	(581)
At 31 December 2009	3,079	1,295	1,791	819	256	3,929	11,169
Recognised in the consolidated income statement	765	(1,295)	(641)	(819)	1,630	590	230
At 31 December 2010	3,844	—	1,150	—	1,886	4,519	11,399

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	717	(300)	21,005	21,422
At 31 December 2009	1,029	—	38,323	39,352
Recognised in the consolidated income statement	693	—	(38,323)	(37,630)
At 31 December 2010	1,722	—	—	1,722

12 INVENTORIES

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Merchandise held for resale	277,516	163,284
Provision for obsolescence	(1,382)	(523)
	276,134	162,761
Low value consumables	307	335
Total	276,441	163,096

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

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Carrying amount of merchandise sold	1,459,469	1,039,751
Write-down of inventories (Note 28)	915	—
Reversal of write-down of inventories (Note 28)	—	(318)
	1,460,384	1,039,433

As at 31 December 2010, no inventories had been pledged as collateral for any bank acceptance bills or bank borrowings. 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 21).

13 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Trade receivables	71,709	101,418
Less: Provision for impairment	(1,362)	(2,504)
Trade receivables, net	70,347	98,914
Bills receivable	96,615	3,690
Trade and bills receivables, net	166,962	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.

13 TRADE AND BILLS RECEIVABLES *(continued)*

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

	As at 31 December	
	2010 RMB'000	2009 RMB'000
0 - 30 days	41,367	82,942
31 - 90 days	17,583	13,443
91 - 365 days	11,397	2,529
1 year - 2 years	1,140	1,447
2 years - 3 years	—	260
Over 3 years	222	797
Total	71,709	101,418

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

The maximum exposures of the Group to credit risk as at the balance sheet date were the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security.

As at 31 December 2010, trade receivables of RMB 1,362,000 (2009: RMB 2,504,000) were past due, impaired and provided for. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
91 - 365 days	—	—
1 year - 2 years	1,140	1,447
2 years - 3 years	—	260
Over 3 years	222	797
Total	1,362	2,504

13 TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2010, trade receivables of RMB 18,237,000 (2009: RMB 7,913,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
31 - 90 days	6,840	5,384
91 - 365 days	11,397	2,529
Total	18,237	7,913

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
At beginning of the year	2,504	1,827
(Reversal)/Addition of provision for receivable impairment (Note 28)	(1,142)	677
At end of the year	1,362	2,504

Bills receivable do not contain impaired assets.

As at 31 December 2010, bills receivables with a net book amount of RMB 50,000,000 had been pledged as collateral for the Group's bank acceptance bills of RMB 45,000,000 (2009: Nil) (Note 19).

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(a) Group

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Prepayments — advance payments to suppliers and rebates receivable from suppliers	736,199	328,327
Prepayments for professional fees related to Listing of the Company	—	3,191
Prepaid consulting fees	4,703	—
Prepaid rentals	11,660	5,606
Other prepayments	903	1,494
Deposits	6,733	5,476
Amounts due from related parties (Note 39(d))	—	160
Other receivables from third parties		
– Value added tax recoverable	24,601	6,017
– Staff advances	3,208	351
– Amount paid on behalf of a supplier	1,284	1,047
– Others	151	1,227
	789,442	352,896

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

(b) Company

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Prepayments for professional fees	—	3,191
Other receivables from a subsidiary	418,349	—
	418,349	3,191

The other receivables from a subsidiary as at 31 December 2010 represent the capital contribution paid to indirectly held subsidiaries on behalf of a directly held subsidiary China Yinrui (HK).

The prepayments and other receivables from a subsidiary of the Company are all denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

15 RESTRICTED BANK DEPOSITS

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Restricted bank deposits	206,976	134,347

As at 31 December 2010, restricted bank deposits of RMB 205,976,000 (2009: RMB 134,347,000) had been pledged as collateral for bank acceptance bills of RMB 430,800,000 (2009: RMB 118,130,000) (Note 19).

As at 31 December 2010, restricted bank deposits of RMB 10,000,000 had been pledged as collateral for bank acceptance bills of RMB 20,000,000, together with a personal guarantee of RMB 10,000,000 provided by a third party (Note 19).

All restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date. The weighted average interest rate per annum on restricted bank deposits was 2.5% as at 31 December 2010 (2009: 1.86%).

16 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Cash on hand		
- denominated in RMB	704	333
Cash at bank		
- denominated in RMB	179,353	17,817
- denominated in HK$	1,015	—
- denominated in US$	560	—
	180,928	17,817
	181,632	18,150

As at 31 December 2010 and 2009, the effective interest rate per annum was as follows:

	As at 31 December	
	2010	2009
RMB	0.36%	0.36%
HK$	0.001%	Nil
US$	0.001%	Nil

17 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					
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 31 December 2010			2,000,000,000	2,000,000	10,598
Issued and fully paid:					
At 1 January 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 31 December 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.

(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.

17 SHARE CAPITAL *(continued)*

Notes *(continued)*:

(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 (equivalent to RMB 371,547,000).

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 (equivalent to RMB 68,854,000) 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 22).

(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 31 December 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 31 December 2010.

18 RESERVES

(a) Group

	Share premium RMB'000 Note (a)	Statutory reserves RMB'000 Note (b)	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2009	435,188	15,101	(88,917)	119,964	481,336
Profit for the year 2009	—	—	—	91,477	91,477
Appropriation to statutory reserves	—	276	—	(276)	—
Balance at 31 December 2009	435,188	15,377	(88,917)	211,165	572,813
Profit for the year 2010	—	—	—	91,719	91,719
Appropriation to statutory reserves	—	5,760	—	(5,760)	—
Issue of shares	410,418	—	—	—	410,418
Pre-IPO Option Scheme					
– value of employee services	—	—	15,840	—	15,840
Special dividend	—	—	—	(40,980)	(40,980)
Balance at 31 December 2010	845,606	21,137	(73,077)	256,144	1,049,810
Representing:					
Proposed final dividend					17,822
Others					1,031,988
					1,049,810

(b) Company

	Share premium RMB'000 Note (a)	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2009	435,188	—	(6,858)	428,330
Loss for the year 2009	—	—	(4,969)	(4,969)
Balance at 31 December 2009	435,188	—	(11,827)	423,361
Profit for the year 2010	—	—	29,364	29,364
Issue of shares	410,418	—	—	410,418
Pre-IPO Option Scheme				
– value of employee services	—	15,840	—	15,840
Special dividend	—	—	(40,980)	(40,980)
Balance at 31 December 2010	845,606	15,840	(23,443)	838,003
Representing:				
Proposed final dividend				17,822
Others				820,181
				838,003

18 RESERVES *(continued)*

Notes:

(a) Share premium

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

	Note	Gross proceeds from initial public offering RMB'000	Underwriter's fees and incentive fees RMB'000	Losses arising from the exercise of Warrants RMB'000	Recognised as share capital RMB'000	Recognised as share premium RMB'000
Share premium at 31 December 2009						435,188
Share issued under the capitalisation issue	17(d)	—	—	—	(4,983)	(4,983)
New issue of shares	17(e)	440,401	(12,619)	—	(2,034)	425,748
Exercise of the Warrants	17(f)	—	—	553	(3)	550
		440,401	(12,619)	553	(7,020)	421,315
Professional fees for the Listing of the Company charged to share premium						(10,897)
Share premium at 31 December 2010						845,606

(b) Statutory reserves

Statutory reserves represent reserves of the PRC incorporated companies which are set aside for future development purpose in accordance with the regulations in the PRC. The allocation is based on certain percentages of these companies' profit for the year, as reported in their statutory financial statements.

19 TRADE AND BILLS PAYABLES

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Trade payables	31,050	16,037
Bills payable	495,800	180,130
	526,850	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 the balance sheet date is as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
0 - 30 days	11,228	8,211
31 - 90 days	18,381	4,110
91 - 365 days	1,077	845
1 year - 2 years	364	2,100
2 years - 3 years	—	685
Over 3 years	—	86
	31,050	16,037

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

As at 31 December 2010, restricted bank deposits of RMB 205,976,000 (2009: RMB 134,347,000) had been pledged as collateral for bank acceptance bills of RMB 430,800,000 (2009: RMB 118,130,000) (Note 15).

As at 31 December 2010, restricted bank deposits of RMB 10,000,000 had been pledged as collateral for bank acceptance bills of RMB 20,000,000, together with a personal guarantee of RMB 10,000,000 provided by a third party (Note 15).

As at 31 December 2010, bills receivable with a net book amount of RMB 50,000,000 had been pledged as collateral for the Group's bank acceptance bills of RMB 45,000,000 (Note 13).

As at 31 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 (Notes 7, 8 and 9). A related party had also provided a personal guarantee of RMB 26,000,000 to the banks in connection with these bank acceptance bills granted to the Group (Note 39(b)). The personal guarantee had been fully released upon the Listing of the Company.

20 ACCRUALS AND OTHER PAYABLES

(a) Group

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Advances from customers	59,145	22,981
Salary and welfare payables	6,784	8,508
Accrued expenses	5,991	4,637
Payables for purchase of equipment	8,213	1,493
Value added tax and other tax payables	4,487	11,437
Amount due to a director (Note 39(d))	156	3,546
Accrued volume discounts to distributors	—	5,179
Others	2,030	3,108
Total	86,806	60,889

The accruals and other payables of the Group are mainly denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

(b) Company

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Other payables to a subsidiary	21,791	6,846
Other payables to third parties	267	8,172
	22,058	15,018

The other payables to a subsidiary as at 31 December 2010 represent the professional fees for the Listing of the Company paid by Yangzhou Huiyin on behalf of the Company.

The accruals and other payables of the Company are all denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date.

21 BORROWINGS

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Short term bank borrowings	50,000	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 the balance sheet date.

As at 31 December 2010, short-term bank borrowings amounting to RMB 50,000,000 (2009: PMB10,000,000) were unsecured.

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 12).

As at 31 December 2009, short-term bank borrowings amounting to RMB 20,000,000 were guaranteed by a related party (Note 39(b)).

The weighted average effective interest rate as at 31 December 2010 was 5.56% (2009: 5.46%). As at 31 December 2010, the Group's borrowings were repayable within one year.

22 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 17(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 RMB 553,000 was credited to share capital and share premium and debited to the income statement (Note 17(f)).

23 CONTINGENT CONSIDERATION LIABILITIES

	Contingent consideration liabilities arising from business combination RMB'000
At 1 January 2010	—
Addition arising from a business combination (Note 36(a))	37,680
Changes in fair values (Note 27)	980
At 31 December 2010	38,660
Including	
- Current portion	33,205
- Non-current portion	5,455
	38,660

24 INVESTMENTS IN SUBSIDIARIES

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Investments in China Yinrui (HK) pursuant to the Reorganisation (Note 1)	435,330	435,330

24 INVESTMENTS IN SUBSIDIARIES *(continued)*

As at 31 December 2010, the Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest held as at 31 December 2010	2009	Principal activities	Note
Directly owned							
China Yinrui (HK)	Hong Kong 14 March 2008	Limited liability company	HKD 1	100%	100%	Investment	
Indirectly owned							
Yangzhou Huiyin 揚州滙銀家電有限公司	Yangzhou Jiangsu, PRC 27 May 2002	Foreign investment enterprise	USD 100,000,000 and USD 96,427,868	100%	100%	Bulk distribution sales and provision of after-sales services of household appliances	
Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. 江蘇滙銀電器連鎖有限公司	Yangzhou Jiangsu, PRC 15 May 2006	Domestic enterprise	RMB 62,500,000	100%	100%	Retail sales and provision of after-sales services of household appliances	
Changzhou Keyi Air-Conditioner Sales Co., Ltd. ("Changzhou Keyi") 常州可意空調銷售有限公司	Changzhou Jiangsu, PRC 26 August 2003	Domestic enterprise	RMB 5,000,000	90%	90%	Bulk distribution sales of Gree air-conditioners	
Xinghua Huiyin Household Appliance Co., Ltd. 興化市滙銀家電有限公司	Xinghua Jiangsu, PRC 13 August 2007	Domestic enterprise	RMB 5,000,000	100%	100%	Retail sales of household appliances	
Yangzhou Huiyin Yuankun Professional Electronics Sales Co., Ltd. 揚州滙銀元坤專業電器銷售有限公司	Yangzhou Jiangsu, PRC 8 January 2008	Domestic enterprise	RMB 5,000,000	100%	100%	Bulk distribution sales of Daikin air-conditioners	
Yangzhou Huihou Electronics Sales Co., Ltd. (Formerly known as "Yangzhou Huiyin Times Electronics Co., Ltd.") 揚州滙厚電器銷售有限公司（原名為「揚州滙銀時代家電有限公司」）	Yangzhou Jiangsu, PRC 23 August 2004	Domestic enterprise	RMB 5,000,000	100%	100%	Bulk distribution sales of household appliances	
Nanjing Huize Electronics Sales Co., Ltd. 南京滙澤電器銷售有限公司	Nanjing Jiangsu, PRC 24 July 2006	Domestic enterprise	RMB 600,000	100%	100%	Retail sales of Gree air-conditioners	
Tianchang Huiyin Household Appliance Co., Ltd. 天長市滙銀家電有限公司	Tianchang Anhui, PRC 6 April 2006	Domestic enterprise	RMB 3,000,000	100%	100%	Retail sales of household appliances	
Yangzhou Hengxin Air-conditioner Sales Co., Ltd. 揚州恒信空調銷售有限公司	Yangzhou Jiangsu, PRC 27 August 2004	Domestic enterprise	RMB 5,000,000	100%	100%	Bulk distribution sales of Gree air-conditioners	

24 INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest held as at 31 December 2010	Effective interest held as at 31 December 2009	Principal activities	Note
Indirectly owned *(continued)*							
Zhenjiang Huize Household Appliance Sales Co., Ltd. 鎮江滙澤電器銷售有限公司	Zhenjiang, Jiangsu, PRC 26 December 2006	Domestic enterprise	RMB 600,000	100%	100%	Bulk distribution sales of Gree air-conditioners	
Yangzhou Huide Electronics Distribution Co., Ltd. 揚州滙德電器營銷有限公司	Yangzhou Jiangsu, PRC 23 October 2006	Domestic enterprise	RMB 5,000,000	100%	100%	Bulk distribution sales of Midea air-conditioners	
Yangzhou Hanshang Huiyin Household Appliance Co., Ltd. 揚州邗上滙銀家電有限公司	Yangzhou Jiangsu, PRC 22 June 2009	Domestic enterprise	RMB 10,000,000	100%	100%	Retail sales of household appliances	
Huai'an Huiyin Household Appliance Co., Ltd. 淮安滙銀家電有限公司	Huai'an Jiangsu, PRC 2 March 2009	Domestic enterprise	RMB 1,000,000	100%	100%	Retail sales of Haier products	
Wuhu Yinrui Household Appliance Sales Co., Ltd. 蕪湖市銀瑞家電銷售有限公司	Wuhu Anhui, PRC 11 March 2009	Domestic enterprise	RMB 2,000,000	100%	100%	Bulk distribution sales of Daikin air-conditioners	
Ningguo Huiyin Household Appliance Sales Co., Ltd. 寧國滙銀家電銷售有限公司	Ningguo Anhui, PRC 23 September 2009	Domestic enterprise	RMB 5,000,000	100%	100%	Retail sales of household appliances	
Jiangsu Huadong Huiyin Household Appliance Co., Ltd. 江蘇華東滙銀家電有限公司	Kunshan Jiangsu, PRC 1 November 2009	Domestic enterprise	RMB 100,000,000 and RMB 20,000,000	100%	100%	Bulk distribution sales of household appliances	
Yangzhou Huiyin LogisticCo., Ltd. 揚州滙銀物流有限公司	Yangzhou Jiangsu, PRC 10 May 2010	Foreign investment enterprise	USD 4,000,000	100%	—	Retail sales of household appliances	
Yangzhou Huiyin Household Appliances Sales Co., Ltd. 揚州滙銀電器銷售有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	USD 10,100,000	100%	—	Retail sales of household appliances	
Huainan Four Seas Huiyin Household Appliances Co., Ltd. ("Huainan Four Seas") 淮南四海滙銀家電有限責任公司	Huainan Anhui, PRC 16 September 2010	Domestic enterprise	RMB 30,000,000	65%	—	Retail sales of household appliances	(i)(ii)
Wuhu Huiyin Household Appliances Sales Co., Ltd. 蕪湖滙銀家電銷售有限公司	Wuhu Anhui, PRC 29 September 2010	Domestic enterprise	RMB 10,000,000	100%	—	Retail sales of household appliances	

24 INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest held as at 31 December 2010	2009	Principal activities	Note
Indirectly owned *(continued)*							
Hefei Jingmei Electrical Media Co., Ltd. ("Hefei Jingmei") 合肥精美電子傳媒有限公司	Hefei Anhui, PRC 14 November 2002	Domestic enterprise	RMB 1,840,000	100%	—	Bulk distribution sales of Sharp products	(i)
Wuxi Runpu Household Appliances Co., Ltd. 無錫潤普家電有限公司	Wuxi Jiangsu, PRC 9 December 2010	Domestic enterprise	RMB 1,800,000	100%	—	Retail sales of household appliances	
Nantong Huiyin Household Appliances Co., Ltd. 南通滙銀家電有限公司	Nantong Jiangsu, PRC 16 December 2010	Domestic enterprise	RMB 1,000,000	100%	—	Retail sales of household appliances	

Notes:

(i) These companies are acquired from third parties or are set up to acquire business from non-controlling interest during the year (Note 36).

(ii) On 6 January 2011, Huainan Four Seas increased its registered capital and paid-up capital from RMB 30,000,000 to RMB 50,000,000. Yangzhou Huiyin and Mr Jin, the non-controlling investor of Huainan Four Seas, contributed RMB 13,000,000 and RMB 7,000,000 to Huainan Four Seas respectively. After the contribution of paid-up capital to Huainan Four Seas, the Group's effective interest held remains unchanged.

(iii) The English names of certain subsidiaries represent the best effort by management of the Company in translating their Chinese names as they do not have official English names.

25 REVENUE

Turnover of the Group comprises revenues recognised during the year as follows:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Sales of goods		
- Retail	769,364	440,331
- Bulk distribution	1,000,426	798,380
including:		
Sales to franchisees	448,167	373,294
Sales to other retailers and distributors	552,259	425,086
	1,769,790	1,238,711
Rendering of services		
- Maintenance service	1,604	2,405
- Installation service	13,056	6,709
	14,660	9,114
Total revenue	1,784,450	1,247,825

26 OTHER INCOME

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Promotion and store display income	6,074	5,475
Subsidies of transportation and old merchandise arising from the Change of the Old for New Program	3,291	—
Rental income	1,268	949
Government subsidies (i)	5,441	5,223
	16,074	11,647

Note:

(i) The subsidy income for the year ended 31 December 2010 comprised an amount of RMB 3,000,000 (2009: Nil) granted by Government of Yangzhou City for the award of successfully Listing of the Company, an amount of RMB 861,000 (2009: Nil) granted by the Ministry of Finance of Yangzhou City as finance subsidy, an amount of RMB 1,000,000 (2009: RMB 501,000) 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 RMB 580,000 (2009: Nil) granted by the Economic Development Zone of Huaqiao Town as the award of establishing of a new subsidiary. The government subsidy income for the year ended 31 December 2009 also comprised an amount RMB 4,722,000 granted by the Ministry of Finance of Hanjiang District of Yangzhou City as finance subsidy. All of the government subsidies for the year ended 31 December 2010 and 2009 are not subject to any conditions.

27 OTHER LOSSES — NET

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Net foreign exchange gains on dividend payable	444	—
Fair value losses on contingent consideration liabilities (Note 23)	(980)	—
Losses arising from the exercise of Warrants (Note 22)	(553)	—
Losses on disposal of property, plant and equipment, net	(1)	(52)
	(1,090)	(52)

28 EXPENSES BY NATURE

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

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Cost of merchandise before deducting supplier rebates	1,894,437	1,308,799
Supplier rebates	(434,968)	(269,048)
Taxes and levies on main operations	3,584	2,304
Employee benefit expenses (Note 29)	43,757	17,178
Pre-IPO Option Scheme expenses (Note 18)	15,840	—
Service charges	5,285	3,269
Operating lease expenses in respect of buildings and warehouses	24,874	15,442
Promotion and advertising expenses	26,616	15,180
Amortisation of land use rights (Note 7)	436	327
Depreciation of property, plant and equipment (Note 8)	13,299	11,103
Amortisation of investment properties (Note 9)	636	636
Amortisation of intangible assets (Note 10)	1,177	1,866
Utilities and telephone expenses	6,479	3,552
Transportation expenses	9,328	4,803
Entertainment expenses	5,842	2,662
Travelling expenses	7,335	2,542
Office expenses	3,069	1,387
Addition/(Reversal) of provision for obsolescence on inventories (Note 12)	915	(318)
(Reversal)/Addition of provision for impairment on receivables (Note 13)	(1,142)	677
Property tax and other taxes	1,544	439
Professional fees relating to the Listing of the Company	7,468	4,809
Auditor's remuneration	3,750	276
Bank charges	2,701	1,528
Consulting expenses	4,302	373
Others	11,033	4,516
Total of cost of sales, selling and marketing expenses and administrative expenses	1,657,597	1,134,302

29 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Salaries and other allowances	31,541	11,242
Social security costs	12,216	5,936
	43,757	17,178

(a) The employees of the subsidiaries of the Group in the PRC participate in defined contribution retirement benefit plans organised by the relevant local governments. For the year ended 31 December 2010, these subsidiaries were required to make monthly defined contributions to these plans at rates ranging from 34.9% to 42.2% of their total salaries subject to certain ceilings (2009: 36.0% to 45.0%).

(b) The Group has no other obligations for the payment of retirement and other post-retirement benefits of its employees or retirees other than the defined contribution payments as disclosed above.

30 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

For the years ended 31 December 2010 and 2009, the remuneration of directors of the Company paid/payable by the Group were as follows:

	For the year ended 31 December 2010				
Name of director	Salaries and others RMB'000	Bonuses RMB'000	Social security costs RMB'000	Pre-IPO Option Scheme expenses RMB'000	Total RMB'000
Chairman					
- Mr. Cao Kuanping	1,826	—	32	7,920	9,778
Executive directors					
- Mr. Wang Zhijin	688	117	86	950	1,841
- Mr. Mao Shanxin	253	—	25	3,168	3,446
- Mr. Mo Chihe	261	—	28	950	1,239
Non-executive directors					
- Mr. Li Jung-Hsing	—	—	—	—	—
- Mr. Ke Shifeng	—	—	—	—	—
- Mr. Clement Kai Yin Kwong	—	—	—	—	—
Independent non-executive directors					
- Mr. Li Fei	36	—	—	—	36
- Mr. Zhou Shui Wen	36	—	—	—	36
- Mr. Tam Chun Chung	75	—	—	—	75
	3,175	117	171	12,988	16,451

30 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

Name of director	For the year ended 31 December 2009 Salaries and others RMB'000	Bonuses RMB'000	Social security costs RMB'000	Pre-IPO Option Scheme expenses RMB'000	Total RMB'000
Chairman					
- Mr. Cao Kuanping	1,200	—	48	—	1,248
Executive directors				—	
- Mr. Wang Zhijin	508	37	65	—	610
- Mr. Mao Shanxin	41	19	17	—	77
- Mr. Mo Chihe	60	28	24	—	112
Non-executive directors					
- Mr. Li Jung-Hsing	—	—	—	—	—
- Mr. Ke Shifeng	—	—	—	—	—
- Mr. Clement Kai Yin Kwong	—	—	—	—	—
Independent non-executive directors					
- Mr. Li Fei	—	—	—	—	—
- Mr. Zhou Shui Wen	—	—	—	—	—
- Mr. Tam Chun Chung	—	—	—	—	
	1,809	84	154	—	2,047

In addition to the emoluments as disclosed above, for the years ended 31 December 2010 and 2009, Mr. Clement Kai Yin Kwong, a non-executive director of the Company, received consulting fee from the Group for the strategic consulting services provided by him on the Group's business strategy and organisational development (Note 39(b)).

Mr. Ke Shifeng was appointed as a non-executive director on 5 March 2010 to replace Mr. Clement Kai Yin Kwong, and he subsequently resigned on 25 March 2011. Mr. Lu Chaolin was appointed as an executive director by the approval of the Company's board of directors on 25 March 2011.

During the years ended 31 December 2010 and 2009, none of the directors of the Company (i) received any emolument from the Group as an inducement to join or upon joining the Group; or (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

30 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include four (2009: two) directors, whose emoluments were reflected in the analysis presented above. The emoluments paid/payable to the remaining one (2009: three) individuals were as follows:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Salaries and other allowances	58	197
Bonuses	150	154
Social security costs	16	80
Pre-IPO Option Scheme expenses	950	—
	1,174	431

The emoluments of the remaining highest paid individuals of the Group fall within the following bands:

	Year ended 31 December	
	2010	2009
Emoluments bands		
- Nil to HK$1,000,000	—	3
- HK$1,000,001 to HK$1,500,000	1	—

31 FINANCE (COSTS)/INCOME — NET

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Finance income		
- Interest income on bank deposits	3,749	4,736
Finance costs		
- Interest expenses on bank borrowings	(2,879)	(2,936)
- Net foreign exchange losses on cash and cash equivalents	(2,266)	—
	(5,145)	(2,936)
	(1,396)	1,800

32 INCOME TAX EXPENSE

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
PRC enterprise and withholding income taxes		
- Current income tax	84,273	12,288
- Deferred income tax (Note 11)	(37,860)	22,003
	46,413	34,291

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

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Profit before income tax	140,441	126,918
Tax calculated at the statutory tax rate of 25% for PRC subsidiaries	35,110	31,729
Income not subject to tax		—
Expenses not deductible for tax purpose	10,611	1,845
Withholding taxation on the unremitted earnings of PRC subsidiaries	692	717
Income tax expense	46,413	34,291

(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 year (2009: Nil).

(b) PRC enterprise income tax

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

(c) PRC withholding income tax

According to the new CIT law, starting from 1 January 2008, a 10% withholding tax 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. The Group accrues for the PRC withholding income tax based on the tax rate of 5% for its immediate holding companies which are established in Hong Kong.

33 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2010 and 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 17(d)) have been regarded as if these shares were in issue since 1 January 2009.

	Year ended 31 December	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	91,719	91,477
Weighted average number of ordinary shares in issue (thousand)	979,580	750,000
Basic earnings per share (RMB cents)	9.36	12.20

(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, the Warrants and settlement in ordinary shares for contingent consideration arising from business combination assuming they were exercised.

	Year ended 31 December	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	91,719	91,477
Weighted average number of ordinary shares in issue (thousand)	979,580	750,000
Adjustment for:		
- Share options granted under the Pre-IPO Option Scheme (thousand) (Note 17(g))	11,618	—
- Warrants (thousand) (Note 22)	67	304
- Settlement in ordinary shares for the contingent consideration arising from business combination (thousand) (Note 36(a))	6,689	—
Weighted average number of ordinary shares for diluted earnings per share (thousand)	997,954	750,304
Diluted earnings per share (RMB cents)	9.19	12.19

34 DIVIDENDS

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Special dividend declared (note (a))	**40,980**	—
Proposed final dividend of HK 2.0 cents (2009: Nil) per ordinary share (note (b))	**17,822**	—
	58,802	—

(a) 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 RMB 40,980,000, 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. As at 31 December 2010, approximately HK$ 46,287,000, equivalent to RMB 40,705,000, of the dividend had been paid to those shareholders. The special dividend not yet paid out by the Company as at 31 December 2010 was approximately HK$ 313,000, equivalent to RMB 275,000.

(b) On 25 March 2011, the board of directors of the Company recommended to distribute a final dividend of HK 2.0 cents (equivalent to approximately RMB 1.7 cents) per share, amounting to approximately HK$ 20,967,000 (equivalent to RMB 17,822,000) for the year ended 31 December 2010. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2011 upon approval by the shareholders at the forthcoming annual general meeting of the Company.

35 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Profit before income tax	140,441	126,918
Adjustments for:		
- Net foreign exchange losses on cash and cash equivalents (Note 31)	2,266	—
- Net foreign exchange gains on dividend payable (Note 27)	(444)	—
- Amortisation of land use rights (Note 7)	436	327
- Depreciation of property, plant and equipment (Note 8)	13,299	11,103
- Depreciation of investment properties (Note 9)	636	636
- Amortisation of intangible assets (Note 10)	1,177	1,866
- Losses on disposal of property, plant and equipment (Note 27)	1	52
- Finance income (Note 31)	(3,749)	(4,736)
- Interest expenses (Note 31)	2,879	2,936
- Fair value losses on contingent consideration liabilities (Note 27)	980	—
- Pre-IPO Option Scheme expenses	15,840	—
- Losses arising from the exercise of Warrants (Note 27)	553	—
- Professional fees relating to the Listing of the Company (Note 28)	7,468	4,809
Operating profit before working capital changes	181,783	143,911
Changes in working capital:		
- Increase in inventories	(89,480)	(1,896)
- Increase in trade and bills receivables	(63,050)	(68,944)
- Increase in prepayments, deposits and other receivables	(436,298)	(118,230)
- Increase in restricted bank deposits	(70,329)	(36,422)
- Increase in trade and bills payable	327,938	18,234
- Increase/(decrease) in accruals and other payables	37,151	(9,894)
Cash used in operations	(112,285)	(73,241)

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Net book amount (Note 8)	28	134
Losses on disposal of property, plant and equipment (Note 27)	(1)	(52)
Proceeds from disposal of property, plant and equipment	27	82

36 BUSINESS COMBINATIONS

(a) Huainan Four Seas

On 20 September 2010, a subsidiary of the Group Yangzhou Huiyin entered into a co-operation agreement with Huainan Xingfushu Electrical Appliances Company Limited ("Xingfushu") and an independent third party Mr. Jin ("JV partner"), who was the 90% owner of Xingfushu, for the formation and operation of a new entity Huainan Four Seas (the "JV Company"), and acquisition of business by the JV Company from Xingfushu comprising inventories, sales network and leases of shops. The JV Company started business on 1 November 2010, meanwhile Xingfushu ceased its business. Yangzhou Huiyin and JV partner own 65% and 35% equity interests of the JV Company respectively. The JV Company has a registered capital of RMB 30,000,000 and therefore Yangzhou Huiyin contributed capital of RMB19,500,000 and Mr. Jin contributed capital of RMB 10,500,000 to the JV Company respectively. The date of acquisition is regarded as 1 November 2010.

The revenue included in the consolidated income statement since 1 November 2010 contributed by the JV Company was RMB 19,898,000. The JV Company also contributed profit of RMB 1,364,000 over the same period. These amounts have been calculated using the Group's accounting policies, together with the consequential tax effects.

Had this business been consolidated from 1 January 2010, the Group's revenue would be increased by RMB 128,543,000 and the Group's profit would be increased by RMB 6,329,000. Had all the acquisitions undertaken by the Group during the year (i.e. acquisition of the business of Xingfushu through Huainan Four Seas and acquisition of Heifei Jingmei (see note (b) below)), the Group's revenue and profit for the year would be RMB 1,923,893,000 and RMB 100,679,000 respectively.

Details of purchase consideration, net assets acquired and goodwill generated are as follows:

	RMB'000
Total contingent consideration (i)	37,680
Non-compete agreement (ii)	(3,620)
Consideration for the inventories	20,044
Total consideration	54,104
Recognised amount of identifiable assets and liabilities assumed:	
Inventories	(20,044)
Goodwill (iii)	34,060
Consideration for the inventories settled in cash	(20,044)
Capital contribution to the JV Company by JV partner	10,500
Net cash outflow on acquisition	(9,544)

The acquisition of the business of Xingfushu comprised taking over of its sales network and leases of shops but these do not constitute or create any identifiable assets that can be recognised.

36 BUSINESS COMBINATIONS *(continued)*

(a) Huainan Four Seas *(continued)*

(i) The contingent consideration arrangement requires Yangzhou Huiyin to pay the JV partner a consideration, amounting to the net operation profit after taxation ("the Net Operating Profit") for the first year after its commencement of business (the " First Operating Year") (subject to a maximum amount of RMB 14 million) times 6.5 minus RMB 19.5 million (the "Consideration"), if the Net Operating Profit of the JV Company for the First Operating Year exceeds RMB 5 million; meanwhile if the Net Operating Profit for the third year after the commencement of business of the JV Company exceeds RMB 13 million and the aggregate Net Operating Profits for the first three years after the commencement of business of the JV Company exceeds RMB 30 million, Yangzhou Huiyin shall pay the JV partner a bonus consideration of RMB 12 milllion (the "Bonus Consideration"). Accordingly, the maximum amount of the contingent consideration payable to the JV partner is RMB 83.5 million. The Consideration and the Bonus Consideration will be paid in cash or, if required by the JV partner, by way of issue and allotment of new ordinary shares of the Company (the "Shares"), to the JV partner. The number of new Shares to be issued will be based on the average closing price of the Shares for the three months immediately preceding the date of the issue and allotment of such Shares.

The fair value of the contingent consideration arrangement of RMB 37,680,000, including current portion of RMB 32,363,000 and non-current portion of RMB 5,317,000, was estimated by applying the income approach. The fair value estimates are based on a discount rate of 23%, the assumed probability-adjusted consideration after discount of RMB 23,625,000, RMB 40,684,000 and RMB 45,750,000 in the conservative case, base case and optimistic case respectively, and the assumed probability for the assumed probability-adjusted consideration of 25%, 50% and 25% in the conservative case, base case and optimistic case respectively.

As at 31 December 2010, there was an increase in fair values of RMB 980,000 (Note 27) recognised in the consolidated income statement for the contingent consideration arrangement, as the assumed probability-adjusted consideration after discount in each case became RMB 24,623,000, RMB 41,751,000 and RMB 46,876,000 respectively.

(ii) Non-compete agreement

Xingfushu and the JV partner have undertaken in the co-operation agreement that they together with the associates of the JV partner will not directly and indirectly carry on any business in relation to household appliances other than through the JV Company.

The fair value of the non-compete agreement was estimated by applying income approach. The fair value estimates are based on a discount rate of 23%, beneficial period of 5 years, a probability of breaching the non-compete agreement by the JV partner of 50% and revenue losses due to the breach of the non-compete agreement by JV partner of 10%.

(iii) Goodwill

The goodwill arising from the acquisition of RMB34,060,000 is attributable to the acquisition of synergy expected from combining the operations of the Group and the JV Company and the sales network in Huainan.

None of the goodwill recognised is expected to be deductible for income tax purpose.

36 BUSINESS COMBINATIONS *(continued)*

(b) Hefei Jingmei

On 1 September 2010, the Group acquired 100% of the equity interests of Hefei Jingmei from an independent third party Mr. Chen.

Hefei Jingmei contributed revenue of RMB 5,918,000 and net profit of RMB 226,000 to the Group for the period from 1 September 2010 to 31 December 2010. These amounts have been calculated using the Group's accounting policies, together with the consequential tax effects.

Had Hefei Jingmei been consolidated from 1 January 2010, the Group's revenue would be increased by RMB 10,900,000 and the Group's profit would be increased by RMB 322,000.

Details of purchase consideration and net assets acquired are as follows:

	RMB'000
Purchase consideration	1,840
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	33
Inventories	3,821
Trade and bills receivables	1,308
Prepayments, deposits and other receivables	248
Restricted cash	2,300
Cash and cash equivalents	18
Trade and bills payables	(2,745)
Accruals and other payables	(2,441)
Dividend payable	(702)
Total identifiable net assets	1,840
Purchase consideration settled in cash	(1,840)
Cash and cash equivalents acquired	18
Net cash outflow on acquisition	(1,822)

No goodwill was generated from the acquisition of the equity interests of Hefei.

37 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 31 December	
	2010 RMB'000	2009 RMB'000
Not later than 1 year	39,240	17,586
Later than 1 year and not later than 5 years	142,787	54,301
Later than 5 years	90,528	33,912
	272,555	105,799

38 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 31 December	
	2010 RMB'000	2009 RMB'000
Not later than 1 year	1,266	1,339
Later than 1 year and not later than 5 years	1,536	2,509
Later than 5 years	44	191
	2,846	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.

39 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 year

Name	**Relationship with the Group**
Mr. Cao Kuanping	Ultimate shareholder of the Company / Director
Mr. Clement Kai Yin Kwong	Director
Mr. Jin	Non-controlling interest
Xingfushu	Controlled by Mr. Jin

(b) Transactions with related parties

Other than the transaction with Mr. Jin and Xingfushu as disclosed in Note 36(a) of these financial statements, the Group had also undertaken the following transactions with related parties:

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Continuing transactions:		
– Rental expenses to a related party		
Mr. Cao Kuanping	800	1,050
– Directors' emoluments		
Salaries, bonuses and other welfares	16,451	2,047
Discontinued transactions:		
– Consulting expenses to a related party		
Mr. Clement Kai Yin Kwong	160	160
– Bank acceptance bills and borrowings guaranteed by a related party (Notes 19 and 21)		
Mr. Cao Kuanping	—	46,000

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.

39 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Salaries and other allowances	3,028	1,809
Bonuses	117	84
Social security costs	171	154
Pre-IPO Option Scheme expenses	12,988	—
	16,304	2,047

(d) Balances with related parties

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

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Balances due from related parties:		
Prepayments, deposits and other receivables (Note 14(a))		
– Mr. Clement Kai Yin Kwong	—	160

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Balances due to related parties:		
Accruals and other payables (Note 20)		
– Mr. Cao Kuanping	156	3,546
Contingent consideration liabilities (Note 23)		
– Mr. Jin	38,660	—
Salaries, bonuses and welfares payable to directors		
– Mr. Cao Kuanping	152	3,288
– Mr. Mao Shanxin	21	22
– Mr. Mo Chihe	22	32
– Mr. Wang Zhijin	174	78
	369	3,420
	39,185	6,966

The balance as at the balance sheet date due to Mr. Cao Kuanping mainly represented miscellaneous payments that Mr. Cao Kuanping paid on behalf of the Group.

40 CONTINGENCIES

In respect of the acquisition of the business of Xingfushu through Huainan Four Seas on 1 November 2010 (Note 36(a)), a consideration of the Net Operating Profit for the First Operating Year times 6.5 minus RMB 19,500,000 may be payable in cash if Net Operating Profit of the Huainan Four Seas for the First Operating Year exceeds RMB 5,000,000, up to a maximum undiscounted amount of RMB 71,500,000, meanwhile if the Net Operating Profit for the third year after the commencement of business of Huainan Four Seas exceeds RMB 13,000,000 and the aggregate Net Operating Profits for the first three years after the commencement of business of the Huainan Four Seas exceeds RMB 30,000,000, Yangzhou Huiyin shall pay the JV partner a bonus consideration of RMB 12,000,000. Accordingly, the maximum amount of the contingent consideration payable to the JV partner is RMB 83.5 million. The Consideration and the Bonus Consideration will be paid in cash or, if required by the JV partner, by way of issue and allotment of new ordinary shares of the Company (the "Shares"), to the JV partner. The number of new Shares to be issued will be based on the average closing price of the Shares for the three months immediately preceding the date of the issue and allotment of such Shares. For details of the amount provided at acquisition and subsequent movements, see Note 23 and Note 36(a).

41 SUBSEQUENT EVENTS

(a) In January 2011, Yangzhou Huiyin acquired 100% of the equity interests of Nanjing Chaoming Technology Development Co., Ltd. from an independent third party, Mr. Song, at a consideration of RMB 46,999,000. The Group is in the process of gathering the relevant financial information and at this stage, it is not yet able to present the details of net assets acquired and how much goodwill would arise.

(b) In January 2011, Yangzhou Huiyin succeeded in the bid to acquire the land use rights of a plot of land with an approximate total site area of 26,071 square meters located in Yangzhou City ("Land Parcel") via the public tender auction and listing-for-sale held by Yangzhou Municipal Land Bureau at the price of RMB 235,420,000. In accordance with the terms announced by Yangzhou Municipal Land Bureau, a deposit of RMB 50,900,000 had been paid by Yangzhou Huiyin in January 2011, and RMB 66,810,000, being 50% of the consideration less the deposit, was paid in February 2010, and the remaining 50% of the consideration, being RMB 117,710,000 is to be paid upon the transfer of the Land Parcel from Yangzhou Municipal Land Bureau which shall take place within 300 days from the date of the bid. It is intended that the Land Parcel will be developed into a retail and commercial complex, including a large flagship retail store of the Group.

42 APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 25 March 2011.

FINANCIAL SUMMARY

	As at and for the year ended 31 December			
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Revenue	1,784,450	1,247,825	988,214	500,483
Profit attributable to equity holders of the Company	91,719	91,477	38,197	43,418
Total assets	1,856,880	945,544	767,624	695,077
Total liabilities	784,591	370,081	284,738	251,796
Total equity	1,072,289	575,463	482,886	443,281
Non-controlling interests in equity	15,317	2,508	1,408	—