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

2011 INTERIM REPORT

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CORPORATE INFORMATION

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. Tan Bien Kiat
Mr. Zhou Shuiwen
Mr. Tam Chun Chung

COMPANY SECRETARY

Ms. Ngai Kit Fong

AUDIT COMMITTEE

Mr. Tam Chun Chung *(Chairman)*
Mr. Tan Bien Kiat
Mr. Zhou Shuiwen

REMUNERATION COMMITTEE

Mr. Zhou Shuiwen *(Chairman)*
Mr. Cao Kuanping
Mr. Tan Bien Kiat

NOMINATION COMMITTEE

Mr. Tan Bien Kiat *(Chairman)*
Mr. Mo Chihe
Mr. Zhou Shuiwen

AUTHORISED REPRESENTATIVES

Mr. Cao Kuanping
Ms. Ngai Kit Fong

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PRC

China Merchant Bank (Yangzhou Branch)
Haiguan Building, West Wing
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Yangzhou City
Jiangsu Province
PRC

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Yangzhou City
Jiangsu Province
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STOCK CODE

1280

WEBSITE OF THE COMPANY

www.hyjd.com
(information on the website does not form part of this interim report)

MARKET REVIEW

Hefty growth in national consumption

The global economy remained at a moderate pace of recovery during the first half of 2011 while China has also maintained its steady economic growth. Meanwhile, Chinese people have become eager to strive for a better standard of living as underpinned by the increasing Chinese residents' income as well as the rising disposable income per capita. According to data from the National Bureau of Statistics of China, the total retail sales of consumer goods in the country for the first half of 2011 exceeded RMB8.5 trillion, representing a year-on-year growth of 16.8%. Retail sales of consumer goods in urban areas reached approximately RMB7.4 trillion, representing a year-on-year growth of 16.9%, while those in rural areas reached approximately RMB1.1 trillion, representing a year-on-year growth of 16.2%. In terms of residents' income, rural household income grew faster than urban household income. In the first half of 2011, urban residents' disposable income per capita and rural residents' income per capita were RMB11,041 and RMB3,706 respectively. In real terms, their respective year-on-year growth rates were 7.6% and 13.7%, which fully shows enormous potential for the rural consumption market.

Promising future for the home appliance market

Thanks to Chinese Government measures to stimulate domestic demand and implement effective financial policies, as well as the acceleration of urbanization, the Chinese home appliance industry is able to continue its stable growth. In line with the government's objective to stimulate domestic consumption, the Ministry of Finance and the Ministry of Commerce jointly announced the Rural Appliance Rebate Program and Change of the Old for New Program in order to grasp the growing opportunities arising in the rural consumption market. Such programs have also prompted a major shift of the Chinese financial policies towards the consumption sector and successfully eliminated the economic imbalances between the rural and urban areas, thereby creating favourable market conditions for the home appliance industry and promoted its healthy development. The effective implementation of these two favourable policies, which tapped into the rural consumption market to leverage on its rising consumption power and fostered greater sales of home appliances in the rural areas, continued to make an important contribution to the development of the third and fourth-tier home appliance markets.

According to data released by the National Bureau of Statistics of China, the total retail sales of consumer goods for the first half of 2011 were RMB8,582.2 billion, representing a year-on-year growth of 16.8% and a growth of 17.7% in June compared with the corresponding period last year; of which, sales of electrical appliances as well as audio and visual equipment registered a more significant increase of 21.5% year-on-year. In addition, the Ministry of Commerce of the PRC announced that the number of products sold under the Rural Appliance Rebate Program throughout the country was 50.938 million units with sales value of RMB124.575 billion, up by 56.7% and 83.7% year-on-year respectively. Since the formal launch of the Rural Appliance Rebate Program, the cumulative number of units sold under this program was 165 million units with sales value of RMB366.37 billion as of 30 June 2011. According to the latest data released by the Ministry of Commerce of the PRC, the cumulative sales volume of new home appliances under the Change of the Old for the New Program as of June 2011 exceeded RMB200 billion since the launch of this program in June 2009. For the five major categories under the Change of the Old for the New Program, sales of TV sets reached 18.624 million units, sales of air-conditioners amounted to 14.082 million units, sales of computers were 8.473 million units, sales of refrigerators were 7.552 million units, and sales of washing machines were 6.982 million units. These figures demonstrate the great success achieved by this program, which helped to boost continuous growth in the third and fourth-tier home appliance markets.

BUSINESS REVIEW

Innovative and unique business model

In the unique conditions of the third and fourth-tier markets in China, the Group has successfully established an integrated business model covering retail, bulk distribution (including sales to our franchisees) and after-sales services, which are complementary to each other. The rapid expansion of our self-operated stores by selecting prime location and quality assets, together with the extensive franchise network and comprehensive after-sales service network, enabled the Group to quickly expand into surrounding areas while enhancing its ''Huiyin'' brand awareness at the same time. In addition, we also offer our products to our franchised stores as well as other independent third parties through bulk distribution, which we provide continues support to our existing retail businesses and effective means of reinforcing customer loyalty by our comprehensive after-sales services network. The Group continued to focus on the management of its client relations with the objectives of achieving an improvement on the Group's sales structure, supply chain, team building as well as the incentives scheme. We recognized strong growth in revenue in the past six months, reflecting the rapid expansion across all business segments.

1. Retail business

➢ Self-operated stores

We believe that store location is crucial to the success of our retail business. Our strategic business focuses on the third and fourth-tier high growth markets within Jiangsu and Anhui Provinces. We offer a wide selection of products through our self-operated stores, covering approximately 19,000 product model types.

During the period under review, we opened 13 self-operated stores in Nanjing, Yangzhou, Huaian, Nantong and Wuhu representing a further step towards the strengthening and optimization of our retail sales network. As of 30 June 2011, we had a total of 63 self-operated stores, a net increase of 10 stores, or 18.9% from 53 stores by the end of 2010. Among which, together with our Yangzhou flagship store, we had a total of 45 general stores that offer a comprehensive range of products and brands to our customers, 4 of them were shop-in-shop in department stores offering mainly higher-end home appliances and consumer electronics, and 14 specialty air-conditioner or dedicated brand retail stores to satisfy the special market demand in different localities. During the period under review, revenue from the self-operated stores of the Group reached RMB533.1 million, up by approximately 57.4% from the corresponding period last year.

➢ Franchised stores

Sales to the franchised stores are the major sources of revenue for the Group, and most of the franchised stores are operated under the registered brand of ''Huiyin'' of the Company, offering more than 1,000 product models to the third and fourth-tier markets. During the period under review, the Group's franchise business continued to focus on the optimization of stores network and active implementation of self-operation management with a key on the enhancement of store quality. By upgrading the store image as well as the services and products, the Group was able to achieve an encouraging result by increasing the profitability and operating efficiency of franchised stores. For the six months ended 30 June 2011, the revenue of the Group derived from the sales to the franchised stores amounted to RMB370.4 million, up 87.0% from the corresponding period last year and accounting for approximately 25.7% of the total sales revenue of the Group.

In addition, the Group also 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. As of 30 June 2011, the Group had a total of 224 franchised stores.

➢ Outlet network of the Group

To strengthen its position in the highly scattered third and fourth-tier markets, we have adopted a unique expansion strategy with self-operated stores complementary to franchised stores to gradually penetrate into the target market. Since the opening of the first self-operated store in Yangzhou in 2003, the retail network of the Group have been rapidly expanding. As of 30 June 2011, we have already built an extensive retail network with 287 stores in 31 cities/districts of Jiangsu and Anhui Provinces, of which 63 and 224 stores were self-operated stores and franchised stores respectively.

The distribution of self-operated stores and franchised stores as at 30 June 2011 is set out below:

	Self-operated stores	Franchised stores
Jiangsu Province		
Yangzhou	22	122
Taizhou	7	34
Nanjing	6	2
Suzhou	3	2
Huai'an	4	1
Zhenjiang	2	4
Yancheng	1	2
Nantong	1	1
Changzhou	—	37
Wuxi	—	13
Lianyungang	—	1
Sub-total	46	219
Anhui Province		
Huainan	9	—
Xuancheng	3	—
Wuhu	2	—
Chuzhou	1	4
Huangshan	1	—
Ma'anshan	1	1
Sub-total	17	5
Total	63	224

2. **Bulk distribution business**

Unlike traditional retail chain operators, the Group distributes as a supplier to our franchised stores as well as other independent third parties. Bulk distribution business and retail business of the Group were complementary to each other, which provided reliable supply for our self-operated stores and franchised stores, and secured a stable source of income for the Group. Currently, the Group is a bulk distributor of products for more than 20 internationally or domestically renowned brands.

Leveraging on our proven retail experience in Jiangsu and Anhui provinces, as well as our deep understanding of consumers' preferences in the third and fourth-tier cities and a well-established sales network in those cities, the Group became a long-standing bulk distributor for the renowned home appliance and consumer electronics product brands. This operating model is well received by our suppliers, as they benefit from our one-stop service, from delivery, warehousing to account management and distribution logistics, without the need to establish branch stores in those markets. In addition, we have adopted a business strategy of sourcing our supplies principally on a Cash-on-Delivery ("COD") or a very short-term credit basis, which relieves our suppliers' cash flow burden and enhances our profitability.

3. **After-sales services**

Comprehensive after-sales services has been one of our strengths. We offer a broad range of installation and maintenance services for the products purchased from us or from other third party vendors, and provide support to our retail business. Quality and timely after-sales warranty is particularly important for opening up of rural markets, as customers in these regions are typically less inclined to replace their appliances with new ones within a short period of time. After-sales services were important to the continued expansion of the Group's retail and bulk distribution businesses. Operating through authorized arrangements with independent third party operators allowed the Group to extend the geographic coverage of our after-sales customer service with less capital requirements and operational risks. As of 30 June 2011, we operated and managed a total of 132 service centers, comprising 13 self-operated service centers and 119 authorized service centers, providing quality maintenance services for customers across a broad geographical area.

The Group has provided such authorized after-sales services to most of our branded electronics suppliers for more than three years. Our service quality is enhanced with the provision of a wide range of after-sales services, which in turn boosted customer loyalty and enhanced consumer confidence in and recognition of the Group. During the period under review, the Group launched an extended warranty plan ("滙金保"延保計劃), under which customers may choose to extend their warranty period by paying a minimal one-off extended warranty fee. The plan covers various home appliances and is well received by customers since its launch.

Innovative and diversified marketing strategies

The Group adopted diversified marketing and brand promotion strategies. In addition to undertaking market research and surveys regularly in order to collect market data in relation to matters such as consumer behaviour and feedback from customers on various marketing tactics adopted by stores, the Group also made use of its website and mass media channels including TV, newspapers and magazines to launch promotional activities and post different types of advertisements. In addition, the Group launched regular sales promotions, and conducted group purchase activities in agreement with several home appliance brands, under which different discounts were offered to customers based on the group purchase size, as a way to stimulate sales.

During the period under review, we launched several large-scale promotional activities, including Happy Community Express, which provided free checkup and repair services for home appliances to the public in our various target markets, thereby reinforcing the Group's reputation gained from its quality after-sales services; Labour Day sales promotion on May 1st, which offered additional discounts during the Labour day vacation, and provided special offers on the Group's online shopping portal ("滙銀易巴"); and "Here comes Lee Xiang – Group purchase with celebrity", which leveraged on the appeal of celebrities by inviting Lee Xiang, a famous TV hostess, to motivate the public to participate in group purchases in order to attract media coverage and underpin the Group's reputation. By providing customers with more new offerings and special offers, these large-scale promotional activities received positive response from consumers and stimulated growth in sales revenue.

Close working relationships with suppliers

Leveraging on its unique purchase strategy and good business relationships with suppliers, the Group strived to provide a great variety of products for customers and ensure stable sources of goods. The Group made prepayments to certain suppliers, as well as adopted the strategy of sourcing on a Cash-on-Delivery ("COD") or very short-term credit basis, which served to relieve our suppliers' cash flow burden and risk of bad debts. The purchasing department reviews product types from time to time, with a view to maintaining a wide range of high quality, branded consumer electronics products within our product mix, thereby strengthening our competitive edge. In addition, the Group communicates with suppliers regularly and maintains close working relationships with them in order to continuously secure supplies on competitive terms. Moreover, as the coverage of our dedicated brand retail stores continued to expand, our suppliers therefore benefitted from our distribution logistics, from delivery to warehousing to account management, without the need to establish a physical presence in our target markets.

Optimised logistics and inventory management

An effective inventory logistics management system is crucial in the relatively scattered markets in third and fourth-tier cities. The Group has developed comprehensive localized logistics networks to serve its broad sales network. The Group strategically built a logistics center every 150 kilometers in the selected satellite cities where the population in surrounding areas was relatively dense and with good residential conditions and facilities in order to provide quality logistics support for such regions. Furthermore, the Group adopted an enterprise resource planning system to allow two-way access to the information system of its distribution centers and headquarters for the efficient central monitoring on distribution outlets scattered around different areas. Delivery of merchandise is either handled by a professional team of the Group or through independent contractors, thus ensuring service efficiency and saving the costs of maintaining a large delivery team and vehicle fleets. As of 30 June 2011, the Group has 18 warehouses and distribution centers covering a total area of over 38,800 sq.m. and provided services for stores in surrounding areas.

Upgrade of information technology system

The Group continuously enhanced its information technology system in line with the growth of the Group, and extended the scope of information sharing between the Group and some of its franchisees, which allowed it to effectively track the sales performance and stock level of its franchised stores on a real-time basis and ultimately facilitating its operation management in areas such as sourcing, inventory, replenishments and logistics. During the period under review, the Group integrated its existing information management system in the Group, meanwhile some of the franchised stores are now using the Group's supply chain system, thus facilitating central management of franchised stores' supply chain by the Group.

Seasoned workforce

As the business grows rapidly and evolves, the Group has been active in expanding its workforce and continued to enhance staff quality. The Group followed its tradition of good training and carried out various training courses, covering, among other things, product knowledge, sales and management skills, with a view to raising the overall quality of employees at all levels of the Group. So far in 2011, the Group organized 2,195 training sessions with more than 20,000 participants. Huiyin Business School, a platform established by the Group which composed of a set of standardized, systematic and differential education and training for employees, is offering its fourth programme since its establishment.

In addition, the Group has implemented an employee performance management strategy since 2011. All employees are required to undergo the wage KPI assessment, in which the work performance, abilities and attitudes of employees are objectively assessed by the relevant center based on the duties and responsibilities, work plan and performance benchmarks of the respective posts, with a view to helping employees enhance their own abilities, as well as raising the overall performance of the Group. The Group also engaged talented professionals from time to time to strengthen its workforce. As of 30 June 2011, the number of the Group's employees was 1,645, representing an increase of 1.3% from 1,624 as at the end of 2010.

PROSPECTS

Looking forward, the home appliance industry is expected to continue its growth momentum in the second half of 2011. The acceleration of urbanization in China and the favourable government policies will support the booming development of the home appliance retail sector. In view of the growing purchasing power of the third and fourth-tier cities and the slackening growth in the first and second-tier home appliance markets, many home appliance enterprises started to place more emphasis on the third and fourth-tier markets. Facing the trend of consolidation in the industry and the ever increasing competitive operating environment, the Group, as a leading home appliance enterprise in the third and fourth-tier markets, will strive to maintain its leadership position in the target markets by continuously strengthening its competitive edges and accelerating corporate growth.

Benefitting from the network development in the third and fourth-tier markets as expedited by the rapid growth of e-commerce, and accelerated by urban development and urban-rural integration, the scale of e-commerce in the home appliance industry continued to expand. In order to capture the enormous business opportunities brought by e-commerce, the Group actively participated in the National consumer electronics sales channels alliance. The objective of the alliance is to promote the development of China's third and fourth-tier home appliance markets. In April 2011, the Group signed strategic co-operation agreements with other third and fourth-tier home appliance chain enterprises, including Zhuji Pengcheng Electronics Company Limited, to form Jiangsu Huicheng Net Alliance Network Technology Company Limited, which will commence the operation in later 2011, and establish Huicheng Net Alliance, a cross-region joint online shopping platform, with a view to promoting sustainable development of home appliance enterprises and create a harmonious market environment.

In future, the Group will upgrade its existing stores, expand its product offerings and strengthen its operational infrastructure to improve the profitability of its stores. Apart from active expansion of sales network, the Group will keep a close eye on the market to seek possible merger and acquisition opportunities in order to enlarge its business scale. In addition, the Group will boost its overall competitive strengths by enhancing its brand marketing activities, further strengthening relationships with its suppliers and further improving its information technology system. As for internal management, the Group will improve communication between departments, ensure thorough execution of the Group's plans, improve staff appraisal and remuneration system and workflow, as well as proactively encourage innovation in brand building, human resources and customer relationships. We believe that the effective implementation of the above strategies will enable the Group to achieve sustainable business growth, enhance profitability and operating efficiency, thereby securing leadership position in the third and fourth-tier home appliance markets and generating higher returns for shareholders and investors.

FINANCIAL REVIEW

Revenue

During the period under review, due to the business development and the booming growth in the third and forth-tier household appliances consumer market, the Group's revenue was approximately RMB1,441.2 million, representing an increase of 83.4% from RMB785.8 million when compared to the same period of 2010.

Turnover of the Group comprises revenues by operation as follows:

	Six months ended 30 June			
	2011		2010	
	RMB'000		RMB'000	
Retail	**533,071**	**37.0%**	338,777	43.1%
Bulk Distribution				
– Sales to franchisees	**370,397**	**25.7%**	198,124	25.2%
– Sales to other retailers and distributors	**529,094**	**36.7%**	242,124	30.8%
Rendering of services	**8,588**	**0.6%**	6,790	0.9%
Total revenue	**1,441,150**	**100.0%**	785,815	100.0%

During the period under review, 30 self-operated stores of the Group which already operated in 2010, accounted for 47.6% of the total number of self-operated stores at the end of the reporting period. The increase in retail sales was also attributable to an increase of sales in Anhui Province due to our enhanced brand recognition, improved store management and beneficial market conditions in the first half of 2011.

During the period under review, sales to franchisees increased primarily as a result of an increase in sales per franchised store. Accelerating urbanization process and raising farmers' income and consumption were the focus of the economic policies for 2011. The franchised stores captured market opprtunities through upgrading the store image, product selection, promotion skills and services, etc.

During the period under review, sales to other retailers and distributors increased mainly due to an increase in sales volume because of the booming demand and rapid-growing consumption capacity for the household appliances, as well as extended distribution rights for certain brands and products in certain areas.

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

	Six months ended 30 June			
	2011		2010	
	RMB'000		RMB'000	
Air-conditioners	**942,515**	**65.8%**	505,236	64.9%
TV sets	**223,769**	**15.6%**	142,491	18.3%
Refrigerators	**101,181**	**7.1%**	66,669	8.5%
Washing machines	**59,381**	**4.1%**	31,243	4.0%
Other small appliances	**105,716**	**7.4%**	33,386	4.3%
Total revenue	**1,432,562**	**100.0%**	779,025	100.0%

The percentage of air-conditioner sales in retail business was much lower than that in bulk distribution business. As the percentage of bulk distribution increased in the first half of 2011, the percentage of revenue derived from sales of air-conditioners increased accordingly.

Other small appliances increased mainly due to an increase in 3C products, such as computer, consumer electronic and communication. The fast product upgrades brought tremendous market demand.

Cost of sales

Cost of sales increased by approximately 90.1% from RMB646.7 million for the six months ended 30 June 2010 to RMB1,229.2 million for the six months ended 30 June 2011, primarily due to an increase in sales volume. The rate of increase in cost of sales was higher than that of our revenue growth principally because: (i) the sales volume of our bulk distribution operation increased at a faster rate than that of retail operation, as the prices that we charge for merchandise through our bulk distribution operation are generally lower than the prices of similar products sold at our self-operated stores; and (ii) the inflated costs and expenses of home appliances' manufacturers, and the cancellation of subsidies to the energy-saving appliances from 31 May 2011 raised the cost of sales.

Gross profit

As a result of the above principal factors, our gross profit increased by approximately 52.4% from RMB139.1 million for the six months ended 30 June 2010 to RMB211.9 million for the six months ended 30 June 2011.

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

	Six months ended 30 June	
	2011	2010
Retail	**20.9%**	23.2%
Bulk distribution	**10.8%**	13.1%
Rendering of services	**38.1%**	43.4%
Overall	**14.7%**	17.7%

The gross profit margin of our retail operation decreased because: (i) the production cost increased in this industry and the subsidies to the energy-saving appliances was cancelled, while the sales price could not be reflected immediately due to customers' price sensitivities; and (ii) the sales percentage in Anhui Province increased from 5.2% for the first half of 2010 to 13.8% of the whole retail business for the same period of 2011, while the gross profit margin in Anhui was lower than that in Jiangsu.

The gross profit margin of our bulk distribution operation was also decreased due to increased cost of the industry.

Other income

During the period under review, the Group recorded other income of approximately RMB8.1 million, representing a decrease from RMB10.6 million in the same period in 2010, which was mainly due to the grant from Yangzhou City for the award of successfully listing in the first half of 2010 amounting to RMB3.0 million.

Other losses

During the period under review, the Group recorded other losses of approximately RMB3.4 million, representing an increase from RMB1.0 million in the same period in 2010, which was mainly due to the fair value losses on the contingent consideration liabilities to an independent third party Mr. Jin, who was the 90% owner of Huainan Xingfushu Electrical Appliances Company Limited. Its business was acquired by the Group in 2010.

Selling and marketing expenses

During the period under review, the Group's total selling and marketing expenses amounted to approximately RMB80.3 million, representing an increase from RMB43.5 million in the same period in 2010, which was mainly due to the increase of the employee benefit expenses, operating lease expenses and other selling and marketing expenses in line with the growth of sales.

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

	Six months ended 30 June	
	2011	2010
Employee benefit expenses	**0.84%**	0.92%
Service charges	**0.53%**	0.33%
Operating lease expenses in respect of buildings and warehouses	**1.51%**	0.91%
Promotion and advertising expenses	**1.05%**	1.42%
Depreciation of property, plant and equipment	**0.66%**	0.64%
Utilities and telephone expenses	**0.15%**	0.09%
Transportation expenses	**0.49%**	0.58%
Travelling expenses	**0.08%**	0.24%
Others	**0.27%**	0.42%
Total selling and marketing expenses	**5.57%**	5.55%

The increase of operating lease expenses in respect of buildings and warehouses was due to the increased rental of newly opened self-operated stores. As at 30 June 2011, the Group had 63 self-operated stores, increasing by 29 stores compared to 34 self-operated stores as at 30 June 2010.

Administrative expenses

During the period under review, the Group's total administrative expenses amounted to approximately RMB56.8 million, representing an increase from RMB46.1 million in the same period of 2010, which was mainly due to the increase of the employee benefit expenses.

The following table sets out a summary for administrative expenses:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Employee benefit expenses	**20,690**	11,308
Pre-IPO Option Scheme expenses	**6,122**	6,336
Operating lease expenses in respect of buildings	**2,908**	2,319
Utilities and telephone expenses	**3,094**	1,973
Travelling expenses	**1,099**	2,117
Professional fees for the Listing of the Company	**—**	7,185
Auditor's remuneration	**1,875**	1,964
Consulting expenses	**1,828**	1,812
Amortisation of intangible assets	**1,852**	364
Others	**17,429**	10,759
Total administrative expenses	**56,897**	46,137

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.

Operating profit

Profit from operations was approximately RMB79.4 million for the six months ended 30 June 2011, increased by RMB20.2 million compared with the same period in 2010, which was mainly due to the combining effect of the increase in the gross profit and operating expenses.

Finance income and costs

During the period under review, the Group's net finance costs was approximately RMB8.0 million, while the net finance costs was approximately RMB2.0 million for the six months ended 30 June 2010, which was mainly due to the fact that more borrowings were incurred in the first half year of 2011, compared with the first half of 2010.

Profit before income tax

During the period under review, the Group's profit before income tax was approximately RMB71.4 million, increased by approximately 24.8% from RMB57.2 million in the same period of 2010.

Income tax

During the period under review, the Group's income tax was approximately RMB22.3 million, representing 31.2% of the profit before income tax, compared with approximately RMB20.3 million, representing 35.5% of the profit before income tax in the same period of 2010. The less effective income tax rate during the period under review was mainly due to the decrease of the non-deductible expenses, including the professional fees for the Listing of the Company in the first half of 2010.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders for the period under review and the same period in 2010 were approximately RMB47.9 million and RMB36.3 million respectively, representing an increase of 32.0%. If the impact of Pre-IPO Option Scheme expenses, professional fees for the Listing of the Company, fair value changes on contingent liabilities and amortisation expenses on the intangible assets arising from acquisitions of businesses are excluded, the increase rate would be approximately 16.7%.

Cash and cash equivalents

As at 30 June 2011, the Group's cash and cash equivalents were approximately RMB139.1 million, representing a decrease of 23.4% from RMB181.6 million at the end of 2010.

Inventories

As at 30 June 2011, the Group's inventories amounted to approximately RMB319.7 million, representing an increase from RMB276.4 million at the end of 2010, which was in line with the business expansion of the Group.

Prepayments, deposits and other receivables

As at 30 June 2011, prepayments, deposits and other receivables of the Group amounted to approximately RMB840.5 million, representing a slight increase from RMB789.4 million at the end of 2010.

Trade and bills receivables

As at 30 June 2011, trade and bills receivables of the Group amounted to approximately RMB177.7 million, representing a slight increase from RMB167.0 million at the end of 2010. Trade and bills receivables turnover days were 22 days, which represented a decrease compared with 28 days for 2010.

Trade and bills payables

As at 30 June 2011, trade and bills payables of the Group amounted to approximately RMB613.8 million, representing an increase from RMB526.9 million at the end of 2010. which was mainly due to the increase of the bills payable. Trade and bills payables turnover days were 84 days, which represented a decrease compared with 90 days in 2010.

Gearing ratio and the basis of calculation

The Group's gearing ratio as at 30 June 2011 and 31 December 2010 was 13.1% and 4.5% respectively. The increase 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 period under review, capital expenditure of the Group amounted to approximately RMB198.0 million, representing an increase from RMB12.2 million in the same period in 2010. The increase of the capital expenditure was mainly due to the prepayments for the land use rights, addition of logistics center construction costs and distribution agreement arising from the acquisition of a subsidiary amounting to approximately RMB125.0 million, RMB21.3 million and RMB22.9 million respectively in the first half of 2011.

Cash flows

During the period under review, net cash inflow from operating activities of the Group amounted to approximately RMB21.4 million as compared to net cash outflow of RMB151.4 million in the same period in 2010. The positive net cash flow in 2011 was mainly due to the stability of inventories and prepayments, deposits and other receivables, as well as trade and bills payables, while the revenue increased significantly.

Net cash outflow from investing activities amounted to approximately RMB205.9 million as compared to RMB10.7 million in the same period in 2010. Higher cash outflows in 2011 was mainly due to the prepayments for the land use rights and acquisition of a subsidiary.

Net cash inflow from financing activities amounted to approximately RMB141.9 million, which was mainly due to the net increase of borrowings amounted to RMB 120.0 million. There was net cash inflow from financing activities amounted to RMB319.9 million in the same period in 2010, which was mainly due to the net proceeds from initial public offering of the Company's shares in March 2010.

Foreign currencies and treasury policy

All the Group's income and the majority of its expenses were denominated in Renminbi.

Pledging of assets

As at 30 June 2011, the Group's pledged bank deposits and bills receivable amounted to RMB239.4 million and RMB20 million respectively. There is no other asset pledged.

Contingent liabilities

As at 30 June 2011, the Group has no contingent liabilities which have not been properly accrued for.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF FUNDS RAISED FROM INITIAL PUBLIC OFFERING

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

As stated in the prospectus of the Company dated 12 March 2010, we intend to use approximately HK$156.5 million (equivalent to approximately 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 30 June 2011, our use of net proceeds raised from IPO was as follows:

	Net proceeds from IPO	
	Available to utilise (RMB million)	Utilised (up to 30 June 2011) (RMB million)
Expansion of retail network	**137.6**	137.6
Acquisitions of home appliances and electronics retail enterprises	**178.6**	68.3
Expansion of distribution and logistics centers in Jiangsu Province	**48.4**	31.3
Improving information and management systems	**4.4**	1.9
General working capital	**34.5**	34.5
	403.5	273.6

The remaining net proceeds were held by us in short-term deposits with licensed banks and authorised financial institutions in 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 various social welfare plans for our employees.

HUMAN RESOURCES

As at 30 June 2011, the Group had 1,645 employees, up 1.29% from 1,624 at the end of 2010.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2011.

SHARE OPTION SCHEMES

On 5 March 2010, we have adopted a share option scheme (the "Share Option Scheme") and a pre-IPO option scheme (the "Pre-IPO Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Share Option Scheme and the Pre-IPO Option Scheme include, without limitation, directors and employees of the Company, or any of its subsidiaries or associated companies. Up to 30 June 2011 and as at the date of this interim report, no share option has been granted or agreed to be granted to any person under the Share Option Scheme.

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"):

	Number of Pre-IPO Options				
Name	**As at 1 January 2011**	**Granted during the period**	**Exercised during the period**	**As at 30 June 2011**	**Approximate percentage of interest in the Company**
Cao Kuanping *Chairman and Executive Director*	25,000,000	—	—	25,000,000	2.38%
Lu Chaolin *Executive Director and Vice General Manager*	3,000,000	—	—	3,000,000	0.29%
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%
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 15(g) to the unaudited condensed consolidated interim financial statements of this interim report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2011, the interests or short positions of our Directors and chief executives of our Company in the equity or debt securities of our Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which had to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, were as follows:

Name	Name of corporation	Nature of interest	Aggregate number of ordinary shares or underlying shares	Approximate percentage of interest in the corporation
Cao Kuanping	The Company	Interest of controlled corporation	257,503,625 Shares (L)	24.56%
	The Company	Beneficial owner	50,000,000 underlying Shares (L)	4.77%
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%
Mo Chihe	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%
Mao Shanxin	The Company	Beneficial owner	10,000,000 underlying Shares (L)	0.95%
	The Company	Beneficial owner	10,000,000 underlying Shares (S)	0.95%
Wang Zhijin	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%

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

Note:

The Company granted 25,000,000 Pre-IPO Options, 3,000,000 Pre-IPO Options, 3,000,000 Pre-IPO Options, 10,000,000 Pre-IPO Options and 3,000,000 Pre-IPO Options to Mr. Cao Kuanping ("Mr. Cao"), Mr. Lu Chaolin, Mr. Mo Chihe, Mr. Mao Shanxin and Mr. Wang Zhijin, to subscribe for 25,000,000 Shares, 3,000,000 Shares, 3,000,000 Shares, 10,000,000 Shares and 3,000,000 Shares, respectively, pursuant to the Pre-IPO Option Scheme. Each of Mr. Lu Chaolin, Mr. Mo Chihe, Mr. Mao Shanxin, Mr. Wang Zhijin, 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 30 June 2011, 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	Capcity	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%
Pope Investments LLC	The Company	Beneficial owner	60,574,843	5.78%
William P. Wells	The Company	Interest of controlled corporation	60,574,843	5.78%

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from the commencement of Listing of the Company's shares on the Stock Exchange to 30 June 2011 and up to the date of this interim report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As set out in note 31(b) to the unaudited condensed consolidated interim financial statements of this interim report, during the six months ended 30 June 2011, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB525,000. The relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules on an annual basis in respect of our annual aggregate amount of such rental expenses will not exceed 0.1% and the continuing connected transaction will be exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules. Details of the aforesaid transaction have been disclosed in the section headed "Connected Transactions" of the prospectus of the Company dated 12 March 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2011 except with the following deviation.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all Directors and the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee of the Group was established in 2010. Currently, it comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Tan Bien Kiat and Mr. Zhou Shuiwen. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the Code on Corporate Governance Practices issued by the Stock Exchange. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 June 2011. In addition, the Company's auditor PricewaterhouseCoopers has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained a sufficient public float throughout the period from the commencement of Listing of the Company's shares on the Stock Exchange to 30 June 2011, and up to the date of this interim report.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2011.

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 24 August 2011

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	18,009	18,228
Property, plant and equipment	7	163,597	140,539
Investment properties	7	23,774	24,092
Intangible assets	8	78,279	41,169
Prepayments for land use rights	7	125,047	—
Deferred income tax assets	9	15,661	11,399
		424,367	235,427
Current assets			
Inventories	10	319,742	276,441
Trade and bills receivables	11	177,672	166,962
Prepayments, deposits and other receivables	12	840,491	789,442
Restricted bank deposits	13	239,409	206,976
Cash and cash equivalents	14	139,068	181,632
		1,716,382	1,621,453
Total assets		2,140,749	1,856,880

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	7,162	7,162
Reserves		1,086,053	1,049,810
		1,093,215	1,056,972
Non-controlling interests in equity		38,355	15,317
Total equity		1,131,570	1,072,289
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	9	7,897	1,722
Other non-current liabilities	19	7,430	5,455
		15,327	7,177
Current liabilities			
Trade and bills payables	16	613,819	526,850
Accruals and other payables	17	78,289	86,806
Dividends payable	27	17,792	275
Borrowings	18	170,000	50,000
Current income tax liabilities		79,011	80,278
Other current liabilities	19	34,941	33,205
		993,852	777,414
Total liabilities		1,009,179	784,591
Total equity and liabilities		2,140,749	1,856,880
Net current assets		722,530	844,039
Total assets less current liabilities		1,146,897	1,079,466

The notes on pages 28 to 60 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	Note	2011 RMB'000	2010 RMB'000
Revenue	20	1,441,150	785,815
Cost of sales	23	(1,229,228)	(646,705)
Gross profit		211,922	139,110
Other income	21	8,070	10,643
Other losses — net	22	(3,444)	(963)
Selling and marketing expenses	23	(80,286)	(43,485)
Administrative expenses	23	(56,897)	(46,137)
Operating profit		79,365	59,168
Finance income		2,720	1,320
Finance costs		(10,717)	(3,307)
Finance costs — net	24	(7,997)	(1,987)
Profit before income tax		71,368	57,181
Income tax expense	25	(22,285)	(20,292)
Profit for the period		49,083	36,889
Attributable to:			
- Equity holders of the Company		47,945	36,271
- Non-controlling interests		1,138	618
		49,083	36,889
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	26	4.57	3.99
– Diluted	26	4.55	3.94
Dividends	27	—	40,980

The notes on pages 28 to 60 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Profit for the period	49,083	36,889
Other comprehensive income	—	—
Total comprehensive income for the period	49,083	36,889
Attributable to:		
- Equity holders of the Company	47,945	36,271
- Non-controlling interests	1,138	618
	49,083	36,889

The notes on pages 28 to 60 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to equity holders of the Company							
	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 2010	142	435,188	15,377	(88,917)	211,165	572,955	2,508	575,463
Profit/Total comprehensive income for the six months ended 30 June 2010	–	–	–	–	36,271	36,271	618	36,889
Issue of shares	7,020	410,418	–	–	–	417,438	–	417,438
Pre-IPO Option Scheme – value of employee services	–	–	–	6,336	–	6,336	–	6,336
Special dividend	–	–	–	–	(40,980)	(40,980)	–	(40,980)
Balance at 30 June 2010	7,162	845,606	15,377	(82,581)	206,456	992,020	3,126	995,146
Balance at 1 January 2011	7,162	845,606	21,137	(73,077)	256,144	1,056,972	15,317	1,072,289
Profit/Total comprehensive income for the six months ended 30 June 2011	–	–	–	–	47,945	47,945	1,138	49,083
Capital contribution from non-controlling interests	–	–	–	–	–	–	22,000	22,000
Final dividend for 2010	–	–	–	–	(17,822)	(17,822)	–	(17,822)
Dividends paid by a subsidiary to non-controlling interests	–	–	–	–	–	–	(100)	(100)
Pre-IPO Option Scheme – value of employee services	–	–	–	6,120	–	6,120	–	6,120
Balance at 30 June 2011	7,162	845,606	21,137	(66,957)	286,267	1,093,215	38,355	1,131,570

The notes on pages 28 to 60 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		Unaudited	
		Six months ended 30 June	
	Note	2011	2010
		RMB'000	RMB'000
Cash flows from operating activities:			
Cash generated from/(used in) operations		52,796	(146,483)
Interest paid		(2,650)	(2,545)
Income tax paid		(28,727)	(2,417)
Net cash generated from/(used in) operating activities		21,419	(151,445)
Cash flows from investing activities:			
Acquisition of a subsidiary, net of cash acquired	28	(46,627)	—
Purchase of property, plant and equipment		(36,734)	(11,371)
Purchase of land use rights	7	(125,047)	—
Purchase of intangible assets	8	(492)	(715)
Proceeds from disposal of property, plant and equipment		325	19
Interest received		2,720	1,320
Net cash used in investing activities		(205,855)	(10,747)
Cash flows from financing activities:			
Net proceeds from initial public offering (excluding the underwriter's fee, incentive fees and professional fees)		—	403,528
Proceeds from bank borrowings		120,000	124,500
Repayments of bank borrowings		—	(194,500)
Capital contribution from non-controlling interests		22,000	—
Dividend paid by a subsidiary to non-controlling interests		(100)	—
Professional fees paid relating to the Listing of the Company		—	(13,651)
Net cash generated from financing activities		141,900	319,877
(Decrease)/increase in cash and cash equivalents		(42,536)	157,685
Cash and cash equivalents at beginning of the period	14	181,632	18,150
Exchange differences on cash and cash equivalents		(28)	(762)
Cash and cash equivalents at end of the period	14	139,068	175,073

The notes on pages 28 to 60 are an integral part of these condensed consolidated interim 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"), certain reorganisation steps (the "Reorganisation") were carried out in 2008. After the completion of the Reorganisation on 3 April 2008, the Company became the holding company of the subsidiaries comprising the Group. The Reorganisation has been accounted for as a reverse acquisition.

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

2 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2011 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

These condensed consolidated interim financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated and were approved by the Company's board of directors on 24 August 2011.

These condensed consolidated interim financial statements have not been audited.

3 ACCOUNTING POLICIES

Except as stated below, the accounting policies applied are consistent with those used for and described in the annual consolidated financial statements of the Company for the year ended 31 December 2010.

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

New/revised standards, amendments and interpretations to existing standards mandatory for the financial year beginning on 1 January 2011 that are relevant to the Group's operations

- HKAS 24 (Revised) "Related Party Disclosures" is effective for annual periods beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party. While the new definition will make it easier to apply, some entities will have more related parties and will be required to make additional disclosure.

- HKAS 34 (Amendment) 'Interim Financial Reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

The adoption of the above revised standard and amendment starting from 1 January 2011 did not give rise to any significant impact on the Group's results of operations and financial position for the six months ended 30 June 2011.

The Group has not early adopted any new accounting and financial reporting standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial year ending on 31 December 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

4 ESTIMATES

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5 FINANCIAL RISK MANAGEMENT

5.1 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 interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2010.

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

5.2 Liquidity risk

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

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

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.2 Liquidity risk *(continued)*

	Within 3 months RMB'000	Between 3 to 6 months RMB'000	Between 6 to 12 months RMB'000
As at 30 June 2011			
Borrowings (Note 18)	—	100,000	70,000
Interest payments on borrowings (note)	2,599	1,965	726
Trade and bills payables (Note 16)	117,138	496,681	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables (Note 17)	23,520	—	—
	143,257	598,646	70,726
As at 31 December 2010			
Borrowings (Note 18)	—	—	50,000
Interest payments on borrowings (note)	695	695	1,390
Trade and bills payables (Note 16)	373,390	153,460	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables (Note 17)	23,174	—	—
	397,259	154,155	51,390

Note:

The interest payments on borrowings are calculated based on borrowings held as at 30 June 2011 and 31 December 2010 respectively without taking into account of future borrowings.

5.3 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 are measured at fair value by level 3 (Note 19).

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, and real estate business.

The unaudited segment results for the six months ended 30 June 2011 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Unallocated* RMB'000	Group RMB'000
Segment revenue	533,071	1,247,851	8,588	—	1,789,510
Inter-segment revenue	—	(348,360)	—	—	(348,360)
Revenue from external customers	533,071	899,491	8,588	—	1,441,150
Operating profit/(loss)	44,994	38,589	2,524	(6,742)	79,365
Finance costs - net					(7,997)
Profit before income tax					71,368
Income tax expense					(22,285)
Profit for the period					49,083
Other segment items are as follows:					
Capital expenditure	18,823	54,104	125,096	—	198,023
Depreciation charge	7,508	3,082	3	—	10,593
Amortisation charge	812	1,577	—	—	2,389

6 SEGMENT INFORMATION *(continued)*

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

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

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

6 SEGMENT INFORMATION *(continued)*

Unaudited segment assets and liabilities as at 30 June 2011 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
2011				
Segment assets	390,527	1,598,279	135,514	2,124,320
Unallocated assets				16,429
Total assets				2,140,749
Segment liabilities	153,914	575,558	4,740	734,212
Unallocated liabilities				274,967
Total liabilities				1,009,179

The audited segment assets and liabilities as at 31 December 2010 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
2010				
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 consist primarily of property, plant and equipment, investment properties, land use rights, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables and operating cash and mainly exclude 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.

7 CAPITAL EXPENDITURE OTHER THAN INTANGIBLE ASSETS

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

	Land use rights RMB'000	Property, plant and equipment RMB'000	Investment properties RMB'000	Prepayments for land use rights (i) RMB'000
Six months ended 30 June 2010				
Opening net book amount at 1 January 2010	18,664	116,587	24,728	—
Additions	—	11,498	—	—
Disposals	—	(20)	—	—
Amortisation and depreciation (Note 23)	(218)	(5,698)	(318)	—
Closing net book amount at 30 June 2010	18,446	122,367	24,410	—
Six months ended 30 June 2011				
Opening net book amount at 1 January 2011	18,228	140,539	24,092	—
Additions	—	33,980	—	125,047
Acquisition of a subsidiary (Note 28)	—	34	—	—
Disposals	—	(363)	—	—
Amortisation and depreciation (Note 23)	(219)	(10,593)	(318)	—
Closing net book amount at 30 June 2011	18,009	163,597	23,774	125,047

Note:

(i) In January 2011, the Group 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 total consideration of RMB235,420,000. In accordance with the terms and conditions in the land purchase agreement, a deposit of RMB117,710,000 had been paid by the Group during the six-month period ended 30 June 2011, and the remaining 50% of the consideration, being RMB117,710,000 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. During the period, the Group established a new subsidiary together with a third party to jointly develop the project on this Land Parcel, which is intended to be a real estate complex, including a large flagship retail store of the Group. The Group owns 70% of the equity interests in this subsidiary.

The prepayments for land use rights represented the 50% of the total consideration and the related deed tax amounting to RMB117,710,000 and RMB7,337,000 respectively.

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

As at 30 June 2011, land use rights, buildings and investment properties with a total net book value of RMB12,997,000, RMB57,248,000 and RMB23,774,000 respectively (31 December 2010: Nil) had been pledged to secure bank borrowings of RMB50,000,000 (31 December 2010: Nil) (Note 18).

7 CAPITAL EXPENDITURE OTHER THAN INTANGIBLE ASSETS *(continued)*

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 interim financial statements. The fair value of the investment properties as of 30 June 2011 would have been RMB28,151,000 (31 December 2010: RMB28,400,000). Fair value was determined by discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question. The fair values of the investment properties as at 31 December 2010 were based on valuation performed by American Appraisal China Limited, an independent and professional qualified valuer. The fair values of the investment properties as at 30 June 2011 were based on a review performed by the management of the Group using the same method adopted by the valuer in arriving at the 31 December 2010 valuation.

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

8 INTANGIBLE ASSETS

	Goodwill RMB'000	Distribution agreement RMB'000	Non-compete agreement RMB'000	Computer software RMB'000	Total RMB'000
Six months ended 30 June 2010					
Opening net book amount at 1 January 2010	—	—	—	3,303	3,303
Additions	—	—	—	715	715
Amortisation (Note 23)	—	—	—	(364)	(364)
Closing net book amount at 30 June 2010	—	—	—	3,654	3,654
Six months ended 30 June 2011					
Opening net book amount at 1 January 2011	34,060	—	3,499	3,610	41,169
Additions	—	—	—	492	492
Acquisition of a subsidiary (Note 28)	14,163	22,927	1,350	30	38,470
Amortisation (Note 23)	—	(1,146)	(475)	(231)	(1,852)
Closing net book amount at 30 June 2011	48,223	21,781	4,374	3,901	78,279

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

No impairment charge of goodwill arose during the six months ended 30 June 2011.

9 DEFERRED INCOME TAX

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

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	8,729	7,459
– to be recovered after more than 12 months	6,932	3,940
	15,661	11,399
Deferred income tax liabilities:		
– to be settled within 12 months	2,355	1,722
– to be settled after more than 12 months	5,542	—
	7,897	1,722

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
At beginning of the period	9,677	(28,183)
Acquisition of a subsidiary (Note 28)	(5,731)	—
Recognised in the consolidated income statement (Note 25)	3,818	(19,293)
At end of the period	7,764	(47,476)

9 DEFERRED INCOME TAX (continued)

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

Deferred income tax assets

	Tax losses RMB'000	Accrued volume discounts to the distributors and franchisees RMB'000	Accrued expenses RMB'000	Depreciation RMB'000	Unrealised profit elimination RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010	3,079	1,295	1,791	819	—	4,185	11,169
Recognised in the consolidated income statement	3,213	895	(822)	(187)	—	(1,237)	1,862
At 30 June 2010	6,292	2,190	969	632	—	2,948	13,031
At 1 January 2011	3,844	—	1,150	—	1,886	4,519	11,399
Recognised in the consolidated income statement	2,762	510	577	—	1,127	(714)	4,262
At 30 June 2011	6,606	510	1,727	—	3,013	3,805	15,661

Deferred income tax liabilities

	Withholding tax on unremitted earnings of subsidiaries RMB'000	Distribution agreement RMB'000	Accrued supplier rebates RMB'000	Total RMB'000
At 1 January 2010	1,029	—	38,323	39,352
Recognised in the consolidated income statement	274	—	20,881	21,155
At 30 June 2010	1,303	—	59,204	60,507
At 1 January 2011	1,722	—	—	1,722
Acquisition of a subsidiary (Note 28)	—	5,731	—	5,731
Recognised in the consolidated income statement	730	(286)	—	444
At 30 June 2011	2,452	5,445	—	7,897

10 INVENTORIES

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Merchandise held for resale	320,218	277,516
Provision for obsolescence	(2,958)	(1,382)
	317,260	276,134
Low value consumables	2,482	307
Total	319,742	276,441

11 TRADE AND BILLS RECEIVABLES

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade receivables	131,804	71,709
Less: Provision for impairment	(535)	(1,362)
Trade receivables, net	131,269	70,347
Bills receivable	46,403	96,615
Trade and bills receivables, net	177,672	166,962

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

11 TRADE AND BILLS RECEIVABLES *(continued)*

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

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
0 - 30 days	**83,642**	41,367
31 - 90 days	**28,167**	17,583
91 - 365 days	**19,460**	11,397
1 year - 2 years	**535**	1,140
2 years - 3 years	**—**	—
Over 3 years	**—**	222
Total	**131,804**	71,709

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 from trade and bills receivables 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 30 June 2011, bills receivable with a carrying amount of RMB20,000,000 (31 December 2010: RMB50,000,000) had been pledged as collateral for the Group's bank acceptance bills of RMB20,000,000 (31 December 2010: RMB45,000,000) (Note 16).

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Prepayments — advance payments to suppliers and rebates receivable from suppliers	781,857	736,199
Prepaid rentals	18,628	11,660
Deposits	7,354	6,733
Prepaid consulting fees	4,479	4,703
Other prepayments	2,431	903
Other receivables from third parties		
– Value added tax recoverable	22,011	24,601
– Amount paid on behalf of a supplier	1,439	1,284
– Staff advances	1,315	3,208
– Others	977	151
	840,491	789,442

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.

13 RESTRICTED BANK DEPOSITS

Restricted bank deposits represent bank deposits pledged as collateral for certain bank acceptance bills (Note 16) of the Group.

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 2.92% at 30 June 2011 (31 December 2010: 2.5%).

14 CASH AND CASH EQUIVALENTS

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Cash on hand		
- denominated in RMB	**599**	704
Cash at bank		
- denominated in RMB	**137,848**	179,353
- denominated in HK$	**84**	1,015
- denominated in US$	**537**	560
	138,469	180,928
	139,068	181,632

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

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
RMB	**0.48%**	0.36%
HK$	**0.001%**	0.001%
US$	**0.001%**	0.001%

15 SHARE CAPITAL

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

	Notes	Par value	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
				US$	RMB'000
Six months ended 30 June 2010					
Authorised:					
As at 1 January 2010	(a)		50,000,000	50,000	359
Issue of ordinary shares	(b)		1,950,000,000	1,950,000	10,239
At 30 June 2010			2,000,000,000	2,000,000	10,598
Issued and fully paid:					
As at 1 January 2010	(c)		20,000,000	20,000	142
Share issued under the capitalisation issue	(d)		730,000,000	730,000	4,983
New issue of shares	(e)		297,970,000	297,970	2,034
Exercise of the warrants	(f)		372,290	372	3
At 30 June 2010			1,048,342,290	1,048,342	7,162
Six months ended 30 June 2011					
Authorised:					
At 1 January 2011 and 30 June 2011		US$0.001	2,000,000,000	2,000,000	10,598
Issued and fully paid:					
At 1 January 2011 and 30 June 2011		US$0.001	1,048,342,290	1,048,342	7,162

15 SHARE CAPITAL *(continued)*

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 Investment Co., Ltd. ("China Houde").

On 3 April 2008, 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 Limited ("New Dame") and New Fellow Holdings Limited ("New Fellow") respectively.

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

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

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

(e) On 25 March 2010, the Company issued 250,000,000 ordinary shares of US$0.001 each at HK$1.69 per share in connection with the Listing, and raised gross proceeds of approximately HK$422,500,000 (equivalent to RMB371,547,000).

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 RMB68,854,000) 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. Upon the issue of the 372,290 new shares to Dalton and Pope on 25 March 2010, the fair value of the shares amounting to RMB553,000 was credited to share capital and share premium and debited to the income statement (Note 22).

15 SHARE CAPITAL *(continued)*

Notes *(continued)*:

(g) The Group approved and launched the Pre-IPO Option Scheme on 5 March 2010. Pursuant to the Pre-IPO Option Scheme, the five executive directors ("key management") and two 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.

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.

As at 30 June 2011, 33,333,333 outstanding options were not exercisable as they have not yet been vested, and 16,666,667 options were exercisable but not exercised by anyone of the key management and senior management members. These options with an exercise price of HK$1.521 per share upon vesting will be expired on 24 March 2015.

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

No option has been granted under the Share Option Scheme as at 30 June 2011.

16 TRADE AND BILLS PAYABLES

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade payables	**34,158**	31,050
Bills payable	**579,661**	495,800
Total	**613,819**	526,850

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	
	30 June 2011 RMB'000	31 December 2010 RMB'000
0 - 30 days	**25,874**	11,228
31 - 90 days	**6,264**	18,381
91 - 365 days	**1,563**	1,077
1 year - 2 years	**457**	364
	34,158	31,050

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 30 June 2011, restricted bank deposits of RMB239,409,000 (31 December 2010: RMB196,976,000) had been pledged as collateral for bank acceptance bills of RMB559,661,000 (31 December 2010: RMB430,800,000) (Note 13).

As at 30 June 2011, bills receivable with a carrying amount of RMB20,000,000 (31 December 2010: RMB50,000,000) had been pledged as collateral for the Group's bank acceptance bills of RMB20,000,000 (31 December 2010: RMB45,000,000) (Note 11).

As at 31 December 2010, restricted bank deposits of RMB10,000,000 had been pledged as collateral for bank acceptance bills of RMB20,000,000, together with a personal guarantee of RMB10,000,000 provided by a third party. As at 30 June 2011, such personal guarantee had been released.

17 ACCRUALS AND OTHER PAYABLES

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Advance from customers	**51,433**	59,145
Salary and welfare payables	**8,745**	6,784
Payables for purchase of equipment	**5,459**	8,213
Accrued expenses	**5,034**	5,991
Value added tax and other tax payables	**3,336**	4,487
Accrued volume discounts to distributors	**2,040**	—
Amount due to a director (Note 31(d))	**126**	156
Others	**2,116**	2,030
Total	**78,289**	86,806

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.

18 BORROWINGS

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Short term bank borrowings	**170,000**	50,000

18 BORROWINGS *(continued)*

Movement in borrowings is analysed as below:

	Short term bank borrowings RMB'000
Six months ended 30 June 2010	
Opening amount at 1 January 2010	70,000
Proceeds from bank borrowings	124,500
Repayments of bank borrowings	(194,500)
Closing amount as at 30 June 2010	–
Six months ended 30 June 2011	
Opening amount at 1 January 2011	50,000
Proceeds from bank borrowings	120,000
Closing amount as at 30 June 2011	170,000

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 balance sheet date.

As at 30 June 2011, land use rights, buildings and investment properties with a total net book value of RMB12,997,000, RMB57,248,000 and RMB23,774,000 respectively (31 December 2010: Nil) had been pledged to secure bank borrowings of RMB50,000,000 (31 December 2010: Nil) (Note 7).

The weighted average effective interest rate as at 30 June 2011 was 5.78% (2010: 5.56%). As at 30 June 2011, the Group's borrowings were repayable within one year.

19 CONTINGENT CONSIDERATION

	Contingent consideration liabilities arising from business combination (Note 32) RMB'000
At 1 January 2011	38,660
Changes in fair values (Note 22)	3,711
At 30 June 2011	42,371
Including	
- Current portion	34,941
- Non-current portion	7,430
	42,371

20 REVENUE

Turnover of the Group comprises revenues recognised as follows:

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Sales of goods		
- Retail	533,071	338,777
- Bulk distribution	899,491	440,248
including:		
Sales to franchisees	370,397	198,124
Sales to other retailers and distributors	529,094	242,124
	1,432,562	779,025
Rendering of services		
- Maintenance service	1,046	1,445
- Installation service	7,542	5,345
	8,588	6,790
Total revenue	1,441,150	785,815

21 OTHER INCOME

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Promotion and store display income	5,098	3,148
Subsidies of transportation and old merchandise arising from the Change of the Old for New Program	2,152	2,494
Rental income	510	499
Government subsidies (i)	310	4,502
	8,070	10,643

(i) The government subsidy income for the six months ended 30 June 2011 comprised an amount of RMB209,000 granted by Government of Yangzhou City for enterprise development and an amount of RMB101,000 granted by the Ministry of Social Security of Yangzhou City for the re-employment of laid-off workers of other companies and were not subject to any conditions. The government subsidy income for the six months ended 30 June 2010 comprised an amount of RMB3,000,000 granted by Government of Yangzhou City for the award of successfully Listing of the Company, an amount of RMB861,000 granted by the Ministry of Finance of Yangzhou City as finance subsidy, an amount of RMB351,000 granted by the Ministry of Social Security of Yangzhou City for the re-employment of laid-off workers of other companies and an amount of RMB290,000 granted by the Economic Development Zone of Huaqiao Town as the award for establishing a new subsidiary. All of the government subsidies for the six months ended 30 June 2010 were not subject to any conditions.

22 OTHER LOSSES - NET

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Net exchange gains / (losses) on receivables and payables	305	(409)
Fair value losses on contingent consideration liabilities (Note 19)	(3,711)	—
Losses on disposal of property, plant and equipment, net	(38)	(1)
Losses arising from the exercise of warrants (Note 15(f))	—	(553)
	(3,444)	(963)

23 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Cost of merchandise before deducting supplier rebates	1,538,592	835,372
Supplier rebates	(313,051)	(190,865)
Taxes and levies on main operations	2,053	1,368
Employee benefit expenses - including the directors' emoluments	32,844	18,536
Pre-IPO Option Scheme expenses	6,120	6,336
Service charges	8,294	2,769
Operating lease expenses in respect of buildings and warehouses	24,651	9,448
Promotion and advertising expenses	15,065	11,151
Amortisation of land use rights (Note 7)	219	218
Depreciation of property, plant and equipment (Note 7)	10,593	5,698
Amortisation of investment properties (Note 7)	318	318
Amortisation of intangible assets (Note 8)	1,852	364
Utilities and telephone expenses	5,185	2,650
Transportation expenses	7,808	4,534
Entertainment fees	2,790	2,519
Travelling expenses	2,216	4,026
Office expenses	1,249	1,569
Provision for obsolescence on inventories	1,634	830
Reversal of provision for impairment on receivables	(794)	(1,243)
Property tax and other taxes	1,498	713
Professional fees relating to the Listing of the Company	—	7,185
Auditor's remuneration	1,875	1,964
Bank charges	2,241	1,357
Consulting expenses	1,828	1,812
Others	11,331	7,698
Total of cost of sales, selling and marketing expenses and administrative expenses	1,366,411	736,327

24 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Interest income on bank deposits	**2,720**	1,320
Finance costs		
- Interest expenses on discount of bills receivable	**(8,039)**	—
- Interest expenses on short term bank borrowings	**(2,650)**	(2,545)
- Net foreign exchange losses on cash and cash equivalents	**(28)**	(762)
	(10,717)	(3,307)
Net finance costs	**(7,997)**	(1,987)

25 INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
PRC enterprise and withholding income taxes		
- Current income tax	**26,103**	999
- Deferred income tax (Note 9)	**(3,818)**	19,293
	22,285	20,292

(a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the six months ended 30 June 2011 (30 June 2010: 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.

25 INCOME TAX EXPENSE *(continued)*

(c) PRC withholding income tax

According to the new CIT law, starting from 1 January 2008, a 10% withholding tax is levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. Such withholding income tax is included in deferred income tax. The Group accrues for the PRC withholding income tax based on the tax rate of 10% for its immediate holding companies which are established in Hong Kong for the six months ended 30 June 2011 (30 June 2010: 5%).

26 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. In determining the weighted average number of ordinary shares in issue during the six months ended 30 June 2010, 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 15(d)) have been regarded as if these shares were in issue since 1 January 2010.

	Six months ended 30 June	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	47,945	36,271
Weighted average number of ordinary shares in issue (thousand)	1,048,342	909,678
Basic earnings per share (RMB cents)	4.57	3.99

(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 and the warrants assuming they were exercised.

	Six months ended 30 June	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	47,945	36,271
Weighted average number of ordinary shares in issue (thousand)	1,048,342	909,678
Adjustment for:		
- Share options granted under the Pre-IPO Option Scheme (thousand) (Note 15(g))	6,320	9,996
- Warrants (thousand)	—	136
Weighted average number of ordinary shares for diluted earnings per share (thousand)	1,054,662	919,810
Diluted earnings per share (RMB cents)	4.55	3.94

27 DIVIDENDS

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (2010: Nil).

In March 2010, the board of directors of the Company approved to declare a one-off and non-recurring dividend of approximately HK$46,600,000, equivalent to RMB40,980,000, arising from the PRC subsidiaries, payable to the shareholders of the Company as of 6 March 2010 on the condition that the Listing of the Company is completed. As at 30 June 2011, approximately HK$46,287,000 of the dividend had been paid to those shareholders. The special dividend not yet paid out by the Company as at 30 June 2011 was approximately HK$313,000, equivalent to RMB262,000.

A final dividend of HK2.0 cents (equivalent to approximately RMB1.7 cents) per share, amounting to approximately HK$20,967,000 (equivalent to RMB17,822,000) for the year ended 31 December 2010 has been approved by the shareholders at the annual general meeting of the Company held on 17 June 2011. The final dividend remained unpaid and was equivalent to RMB17,530,000 as at 30 June 2011.

28 BUSINESS COMBINATION

On 1 January 2011, the Group acquired 100% of the equity interests of Nanjing Chaoming Technology Development Co., Ltd. ("Nanjing Chaoming") from an independent third party, Mr. Song at final consideration of RMB46,999,000.

The revenue included in the consolidated income statement since 1 January 2011 up to 30 June 2011 contributed by Nanjing Chaoming was RMB28,239,000. Nanjing Chaoming incurred losses of RMB2,066,000 over the same period. These amounts have been calculated using the Group's accounting policies, together with the consequential tax effects.

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

	RMB'000
Cash	46,999
Non-compete agreement (i)	(1,350)
Total consideration	45,649
Recognised amounts of identifiable assets acquired and liabilities assumed	
Intangible assets – software (Note 8)	30
Intangible assets – distribution agreement (Note 8) (ii)	22,927
Property, plant and equipment (Note 7)	34
Inventories	3,467
Trade and bills receivables	2,928
Prepayments, deposits and other receivables	9,111
Cash and cash equivalents	372
Deferred tax liabilities	(5,731)
Trade and bills payables	(261)
Accruals and other payables	(34)
Income tax payables	(1,357)
Total identifiable net assets	31,486
Goodwill (Note 8) (iii)	14,163
	45,649
Cash outflow on acquisition	
Purchase consideration settled in cash	46,999
Cash and cash equivalents in subsidiary acquired	(372)
	46,627

The acquisition of the business of Nanjing Chaoming comprised taking over of its growth prospects and presence in geographic markets or locations but these do not constitute or create any identifiable assets that can be recognised.

28 BUSINESS COMBINATION *(continued)*

Note:

(i) Non-compete agreement

Mr. Song has undertaken in the equity transfer agreement that he will not directly or indirectly carry on any business in relation to household appliances other than through Nanjing Chaoming.

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 17.61%, beneficial period of 6 years, a probability of breaching the non-compete agreement by Mr. Song of 50% and revenue losses due to the breach of the non-compete agreement by Mr. Song of 5%.

(ii) Distribution agreement

The acquisition of the business of Nanjing Chaoming comprised taking over of its distribution agreement.

The fair value of the distribution agreement was estimated by applying income approach – multi-period excess earnings method. The distribution agreement with supplier is renewed on annual basis and is expected to be renewed in the future considering that the relationship between Nanjing Chaoming and supplier is longstanding. The fair value estimates are based on a discount rate of 20.61%, beneficial period of 10 years.

(iii) Goodwill

The goodwill arising from the acquisition of RMB13,410,000 is attributable to the acquisition of synergy expected from combining the operations of the Group and Nanjing Chaoming, growth prospects and presence in geographic markets or locations.

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

29 COMMITMENTS

(a) Commitments for capital and property development expenditure

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Contracted but not provided for		
- Property, plant and equipment	13,049	—
- Land use rights	117,710	—
	130,759	—

29 COMMITMENTTS *(continued)*

(b) Operating lease commitments

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

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

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Not later than 1 year	48,472	39,240
Later than 1 year and not later than 5 years	226,900	142,787
Later than 5 years	128,490	90,528
	403,862	272,555

30 FUTURE OPERATING LEASE RENTALS RECEIVABLE

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

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Not later than 1 year	1,193	1,266
Later than 1 year and not later than 5 years	1,227	1,536
Later than 5 years	34	44
	2,454	2,846

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.

31 RELATED PARTY TRANSACTIONS

Previously, 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. In accordance with the revised IAS 24 'Related Party Disclosures' which has become effective on 1 January 2011, the range of related parties is widened since the definition of related party has been changed. For example, an entity is now considered to be related to an associate of its parent company. Similarly two entities are considered to be related if both entities are joint ventures (or one is an associate and the other is a joint venture) of a third entity. In addition, two entities are considered as related if one entity is controlled by an individual who is part of the key management personnel of the other entity. The new definition has no impact on the disclosure of related-party transactions for the Group as it has no transactions with those additional entities now fall within the expanded range of related parties.

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

Name	Relationship with the Group
Mr. Cao Kuanping	Substantial shareholder of the Company / Director
Mr. Jin	Non-controlling investor of a subsidiary
Mr. Clement Kai Yin Kwong	Director

(b) Transactions with related parties

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Continuing transactions:		
- Rental expenses to a related party		
Mr. Cao Kuanping	525	525
- Directors' emoluments		
Salaries, bonuses and other welfares	7,246	7,827
Discontinued transactions:		
- Consulting expenses to a related party		
Mr. Clement Kai Yin Kwong	–	160

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.

31 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Salaries and other allowances	**1,621**	1,155
Bonuses	**—**	250
Social security costs	**95**	86
Pre-IPO Option Scheme expenses	**5,386**	5,196
	7,102	6,687

(d) Balances with related parties

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

	As at	
	30 June	31 December
	2011	2010
	RMB'000	RMB'000
Balances due to related parties:		
Accruals and other payables (Note 17)		
- Mr. Cao Kuanping	**126**	156
Contingent consideration liabilities (Note 19)		
- Mr. Jin	**42,371**	38,660
Salaries, bonuses and welfares payable to directors		
- Mr. Cao Kuanping	**—**	152
- Mr. Mao Shanxin	**—**	21
- Mr. Mo Chihe	**—**	22
- Mr. Wang Zhijin	**—**	174
- Mr. Lu Chaolin	**—**	N/A
	—	369
	42,497	39,185

The balance due to Mr. Cao Kuanping as at the balance sheet date mainly represented miscellaneous payments that Mr. Cao Kuanping paid on behalf of the Group. Mr. Lu Chaolin was appointed as a director on 25 March 2011.

32 CONTINGENCIES

In respect of the acquisition of the business of Huainan Xingfushu Electrical Appliances Company Limited ("Xingfushu") through Huainan Four Seas Huiyin Household Appliances Company Limited ("Huainan Four Seas") on 1 November 2010, a consideration of the net operating profit after taxation ("the Net Operating Profit") for the first year after its commencement of business ("First Operating Year") times 6.5 minus RMB19,500,000 (the "Consideration") may be payable, to Mr. Jin ("JV Partner") who was the 90% owner of Xingfushu, in cash if the Net Operating Profit of Huainan Four Seas for the First Operating Year exceeds RMB5,000,000, up to a maximum undiscounted amount of RMB71,500,000. Meanwhile if the Net Operating Profit for the third year after the commencement of business of Huainan Four Seas exceeds RMB13,000,000 and the aggregate Net Operating Profits for the first three years after the commencement of business of Huainan Four Seas exceeds RMB30,000,000, Yangzhou Huiyin shall pay the JV partner a bonus consideration of RMB12,000,000 (the "Bonus Consideration"). Accordingly, the maximum amount of the contingent consideration payable to the JV partner is RMB83.5 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 to the JV partner. The number of new shares to be issued by the Company 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 liabilities as at 30 June 2011 is RMB42,371,000 (Note 19).