2012 INTERIM REPORT

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

Contents

CORPORATE INFORMATION

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

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

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

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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)

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Increasing consumption power in China

With the sluggish global economy in 2012, the financial crisis continued to have a material impact on the pace of economic development in various regions. Affected by the domestic and international macroeconomic situations, the global economic structure was facing a major adjustment. The economic development in China was also inevitably impacted. This, together with the gradual withdrawal of the "Rural Appliance Rebate Program" and the "Old for New Program", led to a slowdown in the growth of demand in the household appliance market. However, supported by the policy introduced by the central government in May 2012 to facilitate the long-term and steady development of the household appliance industry, the industry development will be confronted with both opportunities and challenges.

As announced by the National Bureau of Statistics of China, the total retail sales of consumer goods in the country for the first half of 2012 was RMB9,822.2 billion, representing a year-on-year growth of 14.4% and a decrease of 2.4 percentage points over the same period last year. Retail sales of consumer goods in urban areas was approximately RMB8,512.3 billion, representing a year-on-year growth of 14.3%, while those in rural areas was approximately RMB1,309.9 billion, representing a year-on-year growth of 14.5%. The growth of retail sales of consumer goods slowed down compared to that for the same period last year. However, with the implementation of the energy conservation subsidy policy for household appliances, the decline in sales of household appliances and AV equipment narrowed during the period, with a decrease of 3.8% over the same period in 2011.

In terms of residents' income, the rural market still offered room for development. Rural residents' income still grew faster than that of urban residents during the review period. According to data from the National Bureau of Statistics of China, for the first half of 2012, the gross income per capita of urban residents was RMB13,679 with a real growth of 9.7%; while the gross income per capita of rural residents was RMB4,303, representing a real year-on-year growth of 12.4%. As the income gap between urban and rural residents starts to narrow down, the consumption potential of rural residents is huge and the demand of rural residents for high-quality household appliances will increase substantially.

The new subsidy policy for household appliances and development opportunities

With the gradual cessation of the sales promotion policies such as the "Rural Appliance Rebate Program" and the "Old for New Program" from 2011 onwards, the household appliance market is facing a slowdown in its growth to some extent. In May 2012, the Executive Meeting of the State Council approved the policies and measures for boosting the consumption of products such as energy-saving household appliances. The promotion period commences from 1 June 2012 and lasts for one year tentatively. The policy arranges for a financial subsidy of RMB36.3 billion used to initiate the promotion of the four major categories of products that meet the energy-saving standards including energy-saving household appliances. This is expected to drive consumption needs by approximately RMB450 billion, which will help increase the sales of energy-saving household appliances. In addition, the "Consumption Promotion Month" was first held throughout the country during the period between April and May 2012. Apart from successfully calling upon enterprises to carry out marketing activities of various kinds, the "Consumption Promotion Month" also inspired medium and long-term policy framework for promoting consumption and covered various aspects such as reducing the burden and logistics costs of circulation enterprises, promoting industrial upgrade, energy conservation and environmental protection, which was conducive to enhancing the confidence of consumers and investors in the household appliance industry.

BUSINESS REVIEW

Unique and premium integrated business model

Being a retailer, agent and after-sales service provider in the third and fourth-tier home appliance markets, Huiyin has always strived to become a leader in the third and fourth-tier home appliance markets in China. The Group actively captured opportunities and fully leveraged its extensive sales network in the third and fourth-tier home appliance markets. The Group has successfully established an innovative and unique integrated business model in the target markets, integrating retail, bulk distribution (including sales to franchised stores) and after-sales services to further expand its share in the target markets and increase the local recognition of the "Huiyin" brand.

The Group provided support for its existing retail business and actively expanded all business segments through self-operated stores and its extensive franchise network. During the period under review, the Group continued to focus on client relations management and offered its products to franchised stores as well as other independent third parties through bulk distribution, effectively reinforcing customer loyalty.

In the first half of 2012, the Group strategically utilised its existing resources pursuant to the plan of the optimization of stores management to achieve steady development across all business segments. For the six months ended 30 June 2012, revenue of the Group was RMB1,164.0 million, down 19.2% as compared with RMB1,441.2 million for the same period in 2011. Net profit of the Group decreased to RMB4.7 million, representing a decrease of 90.4% over the same period last year and gross profit margin increased to 15.7%, representing an increase of 1 percentage point compared to the same period last year. The drop in net profit was attributable to the macro policy for the home appliance industry, increasing operating cost pressure, and the provisions made by the Group in respect of the amounts due from suppliers after taking into account the increased operating pressure in the upstream industry during the first half of 2012.

Retail business

➢ **Self-operated stores**

The Group has put its business focus on high growth markets such as third and fourth-tier cities and sold a great variety of products and brands. As at 30 June 2012, the Group had 59 self-operated stores. Together with its Yangzhou flagship store, the Group had a total of 44 general stores, 6 shop-in-shops located in department stores mainly offering high-end home appliances and consumer electronics, and 9 brand retail stores. For the six months ended 30 June 2012, the Group opened a total of three self-operated stores in Xuzhou and Nantong, in Jiangsu Province and Suzhou, in Anhui Province. Revenue of the self-operated stores was approximately RMB403.7 million, down 24.3% from the same period last year.

The Group has 43 stores in Jiangsu Province, located in Yangzhou, Taizhou, Nanjing, Huai'an, Zhenjiang and Nantong respectively. The Group successfully entered the Haian County market in Nantong in the first half of 2012. The new store has brought a great impact on the home appliance market in Nantong with its integration of new store style. The Group has also maintained a steady number of self-operated stores in Anhui Province, another business focus of the Group, and has opened a total of 16 stores in Huainan, Xuancheng and Wuhu, which effectively increased the Group's local awareness and influence.

The enhancement of the overall operating efficiency of stores and the development of stores is one of the major objectives of the Group this year. During the period under review, apart from introducing more "3C home appliances" (i.e. computers, communication products and consumer electronic products), the Group also established an integrated procurement and sales centre, a chain store management centre and brand and planning centre as well as a compound chain retail system to cope with future competition in the retail end market.

➢ **Franchised stores**

Most of the franchised stores of the Group were operated under the registered brand of "Huiyin". To maintain a steady growth in the franchise business, Huiyin has optimised its franchised store network and increased the market competitiveness and service quality of its stores during the period under review. In addition, the Group officially joined the franchise consolidation management committee in 2012 which has significantly raised the quality of stores and the operation and management standards of franchised stores. The franchise consolidation management continued to increase the franchise standard of the Group, enhance the staff training efforts of franchised stores from product types to brands and helped to guide franchised stores to conduct sales promotion by sending trained staff on site to boost store sales each month.

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 enterprise resource standardization system and store information management system, so as to maintain the profitability and operating efficiency of the Group's franchised stores. As at 30 June 2012, there were 113 franchised stores under the Group. For the six months ended 30 June 2012, income derived by the Group from sales to franchised stores was RMB216.1 million, representing a decrease of 41.7% compared to the same period last year.

➢ **Store network**

The retail network of the Group continued to expand rapidly. To strengthen its leading position in the highly scattered third and fourth-tier markets, the Group has adopted a unique expansion strategy with self-operated stores complementary to franchised stores to gradually increase its penetration in the target markets. As at 30 June 2012, the Group had an integrated retail network with 172 stores in 30 cities/districts of Jiangsu and Anhui Provinces, of which 59 and 113 were self-operated stores and franchised stores respectively, and the total number of self-operated stores and franchised stores in Jiangsu and Anhui Provinces was 154 and 18 respectively.

The distribution of self-operated stores and franchised stores of the Group as at 30 June 2012 is set out below:

	Self-operated stores	Franchised stores
Jiangsu Province		
Yangzhou	20	88
Taizhou	5	16
Nanjing	6	2
Huai'an	4	0
Zhenjiang	2	3
Suzhou	2	0
Yancheng	1	1
Nantong	2	0
Xuzhou	1	0
Lianyungang	0	1
Sub-total	43	111
Anhui Province		
Huainan	9	0
Xuancheng	3	0
Wuhu	1	0
Chuzhou	1	2
Ma'anshan	1	0
Suzhou	1	0
Sub-total	16	2
Total	59	113

Bulk distribution business

The Group as a supplier distributes products to its franchised stores as well as other independent third parties, including home electronic products retailers and corporate customers. Leveraging its sound and extensive sales network in the third and fourth-tier markets as well as a deep understanding of consumption patterns in the target markets, Huiyin kept abreast of consumers' preferences and demand in the third and fourth-tier home appliance markets in China, which helped the Group remain as a long-standing bulk distributor for well-known home appliances and consumer electronic brands. In anticipation of a market environment full of challenges, the Group locked on its target customers in 2012 and continued to maintain the dominant position of the Huiyin distribution brand in the market by adopting flexible and diversified sales promotion methods such as brand group purchase and warehouse marketing. Currently, the Group is a bulk distributor for more than 20 internationally or domestically renowned brands and has maintained close relationships with suppliers.

The bulk distribution business model adopted by the Group and the retail business were complementary to each other, which provided a reliable supply of goods and a stable source of income for our self-operated stores and franchised stores. This business model has been well-received by suppliers since it provided one-stop services ranging from delivery, warehousing to account management and distribution logistics for suppliers who were still able to deeply penetrate into the target markets of the Group without having to establish branches in such markets so as to reduce their operating risks.

After-sales services

Quality and sound after-sales services are the business advantage of the Group and also one of the keys to the continued expansion of the Group's retail and bulk distribution businesses. The Group provided retail business support and offered a broad range of installation and maintenance services for the products purchased from the Group or from other third party vendors and suppliers. Operating through authorised arrangements with independent third party operators allowed the Group to extend the geographic coverage of its after-sales customer service with less capital and operational risks. As at 30 June 2012, the Group operated and managed a total of 57 services centers, of which 5 were self-operated service centers and 52 were authorised service centers, providing quality maintenance services for customers across a broad geographical area.

During the period under review, the Group was committed to enhancing the service quality, customer loyalty and brand recognition through the introduction of diversified after-sales services. The percentage of the extended warranty plan ("滙金保"延保計劃) launched by the Group in retail sales was increasing year by year. Under the plan which covered various home appliances, customers may choose to extend their warranty period by paying a minimal one-off extended warranty fee to enjoy quality maintenance and repair services. The plan has been well received by customers since its launch. In 2012, the Group exerted great efforts to promote the sales of the extended warranty plan and provided extended warranty products in accordance with consumer needs and the market situation. The comprehensive and diversified after-sales service support offered to consumers were highly recognised.

Diversified marketing and promotion strategies

The Group has adopted diversified marketing and brand promotion strategies to meet the market demand of consumers in different regions. To keep abreast of consumption behavior and customer information, the Group launched a long-term customer membership scheme in the first half of 2012 whereby customers may become Huiyin members upon first spending at a Huiyin store and redeem designated products with spending points. Through the membership scheme, the Group realised the electronic management of customer resources and developed an accurate marketing model for long-term customers to enhance its customer marketing and brand promotion strategies.

In the first half of 2012, the Group strategically arranged its store locations in different areas, including the upgrade and renovation of five self-operated stores to achieve improvement in various aspects such as sales, management and service standard, which successfully boosted product sales. In line with the market trend, the Group flexibly adapted its sales promotion strategy during the period under review. Take sales promotion activities during the Labour Day holiday as an example, the Group introduced privileged customer booking services along with a refined media promotion plan. The Group achieved sales slightly higher than that for the same period last year and elevated the recognition of the "Huiyin" brand. In addition, in response to the adjustment in the overall home appliance market, the Group integrated upstream resources, subdivided customer needs and implemented innovative group purchase marketing of various brands in the first half of 2012, which successfully boosted product sales of the target brands.

The Group's online sales promotion also saw considerable progress. Huiyin's pinyi108.com was officially launched in 2011. The Group has enhanced the online purchase interface and flow during the period under review, and also integrated the online purchase front-end with the logistics, installation and after-sales platforms which attracted more brands and home appliance agents to join and successfully created a convenient and efficient shopping experience for customers.

Stable supplier partnership and purchase strategy

The Group has established good business relationships with its suppliers via its unique purchase strategy to maintain a unified and stable source of goods for each retail stores. As for product variety, the procurement department of the Group conducted reviews from time to time, continuously optimised the procurement process and improved the management of various aspects such as orders, capital, stocks and sales, in order to maintain a product structure of high-quality and diversified brands. With an increasing national consumption level, the market demand for high-end home appliances had been growing rapidly. By introducing 3C digital products of several internationally renowned brands, the Group has achieved regional strategic cooperation on such products during the period under review.

Information technology system construction and information monitoring

The Group was committed to integrating and reforming its existing information management system and optimised its procedures to cope with business operations which had been developing at an increasingly fast pace. In 2012, the Group reformed its supply chain system and process, including the advance preparation of procurement administration documents such as procurement undertakings, procurement or sales proposals and sales instructions, and added the functions of early warning and mail delivery of information statement. In addition, since Huiyin stores began to implement all members membership system sales in March this year, the Group has adopted the member management modules to conduct targeted and multi-dimensional analyses of member consumption information. During the period under review, the successful construction of the exclusive line network for the Group's stores and branches guaranteed the highest security level for the Group's information as well as enhanced the network speed.

Professional human resources management

As at 30 June 2012, the number of the Group's employees was 1,220. The Group was active in expanding human resources management to complement the Group's business reform and improve the quality of its employees. In the first half of 2012, the Group initially established a training management system under the "Employee Coach" model to further improve the sales and marketing skills of employees. The Group also shared experience in areas such as professional development, emotion management and occupational health with employees to cater to the needs of employees of all levels in an all-round manner. During the period under review, the Group organised more than 300 training sessions in various aspects, with a total of 1,306 participants.

In addition, undertaking the corporate social responsibility is particularly important for the long-term development of the Group. In the first half of 2012, the Group actively participated in a range of community welfare undertakings, including charitable donation, supporting local education projects. Meanwhile, the Group also encouraged its employees to participate in various community welfare events to fulfill the Group's corporate social responsibility of contributing to the society.

Outlook

Given the slower-than-expected global economic recovery and the sustained downturn in businesses in connection with the home appliance industry, the domestic home appliance industry is facing the change and consolidation as a result of growth. Confronted with challenges in the industry, the Group is continuously reinforcing its own advantages so as to make better deployment and preparation for its future development. Overall, product penetration in the PRC third and fourth-tier markets remains low. With the acceleration of urbanization and higher income level of rural residents, the growth potential of the PRC third and fourth-tier home appliance markets is still enormous. Leveraging its supply chain advantage in the PRC third and fourth-tier markets, the Group will continue to meticulously deploy the sales network in the target markets through retailing, agency sales, franchise and after-sales services combined with the development of e-commerce to consolidate the Group's supply chain advantage in the PRC third and fourth-tier markets and further reinforce the "Huiyin" brand in the PRC home appliance market.

In the second half of 2012, the Group will strive to implement accurate marketing strategies and strengthen budget and sales process management to improve the profitability of stores and increase the operating efficiency with a view to building an extensive and steady customer base for the Group. Apart from actively expanding its sales network, the Group is also committed to strengthening internal management and is active in reforming brand building, human resources and customer relations in an innovative way.

Looking ahead to the coming year, the Group will deploy its network according to the self-operated store expansion plan and the franchised store development plan. Besides, it will occupy high-quality commercial network on the basis of optimizing and transforming its existing stores so that the Group can maintain its leading position in the target markets. Being one of the leading enterprises in the PRC third and fourth-tier home appliance markets, the Group has laid a solid foundation for long-term growth in the future. We believe through the above strategies, the Group can achieve sustained business expansion, thus generating even better returns for our shareholders and investors.

FINANCIAL REVIEW

Revenue

During the period under review, due to the macro policy and the declining demand in the household appliances consumer market, the Group's revenue was approximately RMB1,164.0 million, representing a decrease of 19.2% from RMB1,441.2 million in the same period of 2011.

Turnover of the Group comprises revenues by operation as follows:

	Six months ended 30 June			
	2012		2011	
	RMB'000		RMB'000	
Retail	**403,703**	**34.7%**	533,071	37.0%
Bulk distribution				
– Sales to franchisees	**216,086**	**18.5%**	370,397	25.7%
– Sales to other retailers and distributors	**538,596**	**46.3%**	529,094	36.7%
Rendering of services	**5,573**	**0.5%**	8,588	0.6%
Total revenue	**1,163,958**	**100.0%**	1,441,150	100.0%

The decrease in sales of retail and bulk distribution was mainly attributable to the macro policy and the declining demand in the household appliances consumer market in the first half of 2012. During the period under review, the Group had 48 comparable self-operated stores in 2011, which accounted for 81.4% of the total number of self-operated stores at the end of the period under review.

During the period under review, the percentage of sales to franchisees of total revenue decreased and that of sales to other retailers and distributors increased primarily as a result that part of our franchise stores were changed to normal customers according to the Group's strategy in the third and fourth-tier markets.

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			
	2012		2011	
	RMB'000		RMB'000	
Air-conditioners	**674,378**	**58.2%**	942,515	65.8%
TV sets	**233,867**	**20.2%**	223,769	15.6%
Refrigerators	**95,155**	**8.2%**	101,181	7.1%
Washing machines	**59,606**	**5.2%**	59,381	4.1%
Others	**95,379**	**8.2%**	105,716	7.4%
Total revenue	**1,158,385**	**100.0%**	1,432,562	100.0%

The percentage of air-conditioner sales decreased primarily due to the weak macro environment and the declining demand for the air-conditioners in the first half of 2012.

Sales of TV sets increased mainly due to the new products, such as smart TVs and 3D TVs. The product upgrades stimulated market demand.

Cost of sales

Cost of sales decreased by approximately 20.1% from RMB1,229.2 million for the six months ended 30 June 2011 to RMB981.8 million for the six months ended 30 June 2012, primarily due to a decrease in sales volume. The rate of decrease in cost of sales was higher than that of our revenue principally because of: (i) the decrease in merchandise cost in the industry; and (ii) the strengthened management of the product mix and gross profit margin.

Gross profit

As a result of the above principal factors, our gross profit decreased by approximately 14.0% from RMB211.9 million for the six months ended 30 June 2011 to RMB182.2 million for the six months ended 30 June 2012.

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

	Six months ended 30 June	
	2012	2011
Retail	**20.0%**	20.9%
Bulk distribution	**13.2%**	10.8%
Rendering of services	**27.8%**	38.1%
Overall	**15.7%**	14.7%

The gross profit margin of our retail operation decreased slightly compared with the same period in 2011.

The gross profit margin of our bulk distribution operation increased due to the decrease in merchandise cost in the industry.

Other income

During the period under review, the Group recorded other income of approximately RMB6.9 million, representing a slight decrease from RMB8.1 million in the same period in 2011.

Other losses

During the period under review, the Group recorded other losses of approximately RMB0.9 million, representing a decrease from RMB3.4 million in the same period in 2011, which mainly consisted of the fair value losses arising from the contingent consideration liabilities to an independent third party, who was the 90% owner of Huainan Xingfushu Electrical Appliances Company Limited. Its business was acquires 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 RMB85.6 million, representing an increase from RMB80.3 million in the same period in 2011, which was mainly due to the increase of the employee benefit expenses, operating lease expenses and other selling and marketing expenses.

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

	Six months ended 30 June	
	2012	2011
Employee benefit expenses	**1.31%**	0.84%
Service charges	**0.27%**	0.53%
Operating lease expenses in respect of buildings and warehouses	**2.45%**	1.51%
Promotion and advertising expenses	**1.24%**	1.05%
Depreciation of property, plant and equipment	**1.00%**	0.66%
Utilities and telephone expenses	**0.40%**	0.15%
Transportation expenses	**0.39%**	0.49%
Travelling expenses	**0.10%**	0.08%
Others	**0.20%**	0.27%
Total selling and marketing expenses	**7.36%**	5.58%

The increase of operating lease expenses in respect of buildings and warehouses and employee benefit expenses reflected the higher operating cost pressure in the industry.

Administrative expenses

During the period under review, the Group's total administrative expenses amounted to approximately RMB71.4 million, representing an increase from RMB56.9 million in the same period of 2011, which was mainly due to the provision for impairment on receivables and impairment loss against goodwill.

The following table sets out a summary for administrative expenses:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Employee benefit expenses	**22,696**	20,690
Pre-IPO share option expenses	**2,682**	6,122
Operating lease expenses in respect of buildings	**3,798**	2,908
Utilities and telephone expenses	**1,447**	3,094
Travelling expenses	**1,042**	1,099
Auditors' remuneration	**1,655**	1,875
Consulting expenses	**890**	1,828
Amortisation of intangible assets	**2,016**	1,852
Provision for impairment on receivables	**8,905**	—
Impairment loss against goodwill	**10,000**	—
Others	**16,317**	17,429
Total administrative expenses	**71,448**	56,897

The increase of provision for impairment on receivables was mainly due to making of certain provision for receivables from suppliers after having considered the increased operating pressure of upstream companies in the industry in the first half of 2012.

Impairment loss against goodwill was because the performance of the acquired business did not meet the expectation after the earthquake in Japan last year and the macro economic crisis in the whole world till now.

Operating profit

Profit from operations was approximately RMB31.0 million for the six months ended 30 June 2012, decreased by RMB48.3 million compared with the same period in 2011, which was mainly due to the combining effect of the decrease in the gross profit and the increase in operating expenses.

Finance income and costs

During the period under review, the Group's net finance costs was approximately RMB16.6 million, while the net finance costs was approximately RMB8.0 million for the six months ended 30 June 2011, which was mainly due to the fact that much more borrowings were incurred in the first half year of 2012.

Profit before income tax

During the period under review, the Group's profit before income tax was approximately RMB14.4 million, decreased by approximately 79.8% from RMB71.4 million in the same period of 2011.

Income tax

During the period under review, the Group's income tax was approximately RMB9.7 million, representing 67.2% of the profit before income tax, while approximately RMB22.3 million, representing 31.2% of the profit before income tax in the same period of 2011. The higher effective income tax rate during the period under review was mainly due to the increase of certain non-deductible expenses, including impairment loss against goodwill and etc.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders for the period under review and the same period in 2011 were approximately RMB2.6 million and RMB47.9 million respectively, representing a decrease of 94.7%.

Cash and cash equivalents

As at 30 June 2012, the Group's cash and cash equivalents were approximately RMB273.4 million, representing an increase of 121.0% from RMB123.7 million at the end of 2011.

Inventories

As at 30 June 2012, the Group's inventories amounted to approximately RMB310.1 million, representing a decrease from RMB382.7 million at the end of 2011.

Prepayments, deposits and other receivables

As at 30 June 2012, prepayments, deposits and other receivables of the Group amounted to approximately RMB996.0 million, representing a slight increase from RMB967.5 million at the end of 2011.

Trade and bills receivables

As at 30 June 2012, trade and bills receivables of the Group amounted to approximately RMB442.4 million, representing a significant increase from RMB173.7 million at the end of 2011, which was mainly due to the significant balance of bills receivable amounting to RMB312.9 million.

Trade and bills payables

As at 30 June 2012, trade and bills payables of the Group amounted to approximately RMB490.2 million, representing a decrease from RMB547.2 million at the end of 2011.

Gearing ratio and the basis of calculation

The Group's gearing ratio as at 30 June 2012 and 31 December 2011 was 48.4% and 35.1% respectively. The increase was mainly due to the significant increase of borrowing balance. 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 RMB10.5 million, representing a significant decrease from RMB198.0 million in the same period in 2011. The decrease of the capital expenditure was mainly due to the prepayments for the land use rights amounting to RMB125.0 million in 2011.

Cash flows

During the period under review, net cash outflow from operating activities of the Group amounting to approximately RMB200.9 million as compared to RMB21.4 million of net cash inflow in the same period in 2011. The negative cash flow in 2012 was mainly due to the significant increase of bills receivable.

Net cash outflow from investing activities amounted to approximately RMB5.9 million as compared to RMB205.9 million in the same period in 2011. Higher cash outflow in 2011 was mainly due to payments for purchase of the land use rights and acquisition of subsidiary.

Net cash inflow from financing activities amounted to approximately RMB356.9 million, while the net cash inflow from financing activities amounted to RMB141.9 million in the same period in 2011. The higher cash inflow was mainly due to the increase of proceeds from bank borrowings.

Liquidity and financial resources

During the period under review, the Group's working capital, capital expenditure and cash for investment were funded from cash on hand, bank borrowings and IPO proceeds. As at 30 June 2012, the interest-bearing bank borrowings of the Group amounted to RMB1,043.6 million, representing a substantially increase from RMB599.1 million as at 31 December 2011.

Of all the short term bank borrowings, the three bank borrowing balances of US$20.8 million, equivalent to RMB131.7 million, were utilised in the Mainland China in the form of additional capital injection, which were registered at local administration of foreign exchange. The Group was under negotiation with the relevant banks for the change of utilization of the three borrowings as specified in the loan agreements.

On 20 July 2012, Yangzhou Huiyin, a wholly-owned subsidiary of the Company, received the notice of acceptance for registration from the National Association of Financial Market Institutional Investors ("Association") confirming the registration of the issue of the Medium-Term Notes ("Notes") in the PRC with an aggregate principal amount of not more than RMB400 million with the Association. According to the notice, it was approved, inter alia, Yangzhou Huiyin may issue the Notes in an aggregate principal amount of RMB 390 million, within a period of two years from the date of the notice. The Notes shall be listed and transferable on the inter-bank debenture market in the PRC.

On 20 August 2012, Yangzhou Huiyin completed the issuance of the Notes in the PRC in the amount of RMB 390 million, at the interest rate of 6.3% per annum, and with a term of three years. 74.36% of the proceeds from the issue of the Notes will be used for enhancing sales network and 25.64% of the proceeds will be used for repaying part of the existing bank loans of Yangzhou Huiyin.

Pledging of assets

As at 30 June 2012, the Group's pledged bank deposits and bills receivable amounted to RMB434.1 million and RMB3.3 million respectively. Certain land use rights, buildings and investment properties with a total net book amount of RMB87.2 million had been pledged.

Contingent liabilities

As at 30 June 2012, the Group had no contingent liabilities which have not been properly accrued for.

Foreign currencies and treasury policy

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

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. Net proceeds raised from our initial public offering ("IPO") were approximately HK$458.9 million (equivalents to approximately RMB403.5 million).

As stated in the prospectus of the Company dated 12 March 2010, we intend to use approximately HK$156.5 million (equivalent to approximately RMB137.6 million) for expansion of our retail network, approximately HK$203.2 million (equivalent to approximately RMB178.6 million) for potential acquisitions of home appliances and electronics retail enterprises in eastern China which target at the third and fourth-tier markets, approximately HK$55.0 million (equivalent to approximately RMB48.4 million) for expansion of our existing distribution and logistics 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 2012, our use of net proceeds raised from IPO was as follows:

	Net proceeds from IPO	
	Available to utilise (RMB million)	Utlised (up to 30 June 2012) (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**	48.4
Improving information and management systems	**4.4**	2.1
General working capital	**34.5**	34.5
	403.5	290.9

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

EMPLOYMENT AND REMUNERATION POLICY

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

HUMAN RESOURCES

As at 30 June 2012, the Group had 1,220 employees, down 11.3% from 1,375 at the end of 2011.

INTERIM DIVIDEND

The board of directors (the "Board") of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2012.

OTHER INFORMATION

SHARE OPTION SCHEMES

On 5 March 2010, we have adopted a share option scheme (the "Share Option Scheme") and a pre-IPO option scheme (the "Pre-IPO Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Share Option Scheme and the Pre-IPO Option Scheme include, without limitation, directors and employees of the Company, or any of its subsidiaries or associated companies. Up to 30 June 2012 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") as follows:

	Number of Pre-IPO Options				
Name	As at 1 January 2012	Granted during the period	Exercised during the period	As at 30 June 2012	Approximate percentage of interest in the Company
Cao Kuanping *Chairman and Executive Director*	25,000,000	–	–	25,000,000	2.38%
Mo Chihe *Executive Director*	3,000,000	–	–	3,000,000	0.29%
Mao Shanxin *Executive Director*	10,000,000	–	–	10,000,000	0.95%
Wang Zhijin *Executive Director and Chief Financial Officer*	3,000,000	–	–	3,000,000	0.29%
Lu Chaolin *Executive Director and Vice General Manager*	3,000,000	–	–	3,000,000	0.29%
Gao Yuan *General manager of Yangzhou Hengxin Air-conditioner Sales Co., Ltd.*	3,000,000	–	–	3,000,000	0.29%
Sun Qingxiang *General manager of Yangzhou Huide Electronics Distribution Co., Ltd.*	3,000,000	–	–	3,000,000	0.29%

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

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

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

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

The subscription price payable upon the exercise of any Pre-IPO Options is fixed at HK$1.521. No further options will be offered under the Pre-IPO Option Scheme. Details of the valuation of the Pre-IPO Options are set out in note 15(a) to the unaudited condensed consolidated interim financial statements of this interim report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests or short positions of our Directors and chief executives of our Company in the equity or debt securities of our Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which had to be notified to our Company and the Stock Exchange under Division 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, were as follows:

Name	Name of corporation	Nature of interest	Aggregate number of ordinary shares or underlying shares	Approximate percentage of interest in the corporation
Cao Kuanping	The Company	Interest of controlled corporation	257,803,625 Shares (L)	24.59%
	The Company	Beneficial owner	50,000,000 underlying Shares (L)	4.77%
Mo Chihe	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%
Mao Shanxin	The Company	Beneficial owner	10,000,000 underlying Shares (L)	0.95%
	The Company	Beneficial owner	10,000,000 underlying Shares (S)	0.95%
Wang Zhijin	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%
Lu Chaolin	The Company	Beneficial owner	3,000,000 underlying Shares (L)	0.29%
	The Company	Beneficial owner	3,000,000 underlying Shares (S)	0.29%

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

Note:

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

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 30 June 2012, 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	Capacity	Aggregate number of ordinary shares	Approximate percentage of interest in the corporation
China Ruike Investment & Development Co., Ltd.	The Company	Beneficial owner	257,803,625 (L)	24.59%
Deutsche Bank Aktiengesellschaft	The Company	Beneficial owner	6,320 (L) 320 (S)	0.0006% 0.0000%
		Person having a security interest	196,221,250 (L) 160,000 (S)	18.72% 0.02%
ARC Huiyin Holdings Limited	The Company	Beneficial owner	196,061,250 (L)	18.70%
ARC Capital Holdings Limited	The Company	Interest of controlled corporation	196,061,250 (L)	18.70%
Pope Investments LLC	The Company	Beneficial owner	60,574,843 (L)	5.78%
William P. Wells	The Company	Interest of controlled corporation	60,574,843 (L)	5.78%

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from 1 January 2012 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 30(b) to the unaudited condensed consolidated interim financial statements of this interim report, during the six months ended 30 June 2012, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB405,000. The relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules on an annual basis in respect of the annual aggregate amount of such rental expenses will not exceed 0.1%, or will not exceed 5% and the total annual rental expenses payable to Mr. Cao will not exceed HK$1,000,000, and the continuing connected transaction will be exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "Code") during the period from 1 April 2012 to 30 June 2012, as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2012 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 2012.

CHANGES IN DIRECTORS' INFORMATION

Mr. Lu Chaolin, an executive Director, ceased to be the legal representative of 揚州恒信空調銷售有限公司(Yangzhou Hengxin Air-conditioner Sales Co., Ltd.*) and 揚州滙德電器營銷有限公司(Yangzhou Huide Electronics Distribution Co., Ltd.*).

As the responsibilities and scope expanded, the Financial & Investment Committee of Singapore University of Technology & Design was spilt into two committees: the Finance Committee and the Investment Committee. Mr. Tan Bien Kiat, an independent non-executive Director, was elected as a member of the Finance Committee.

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

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 Corporate Governance Code 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 2012. 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 2012.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained a sufficient public float throughout the period from 1 January 2012 to 30 June 2012, 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 2012.

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 22 August 2012

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	17,453	17,792
Prepayments for land use rights	7	125,047	125,047
Property, plant and equipment	7	179,453	186,609
Investment properties	7	27,764	23,456
Intangible assets	8	61,339	73,355
Deferred income tax assets	9	35,077	30,161
		446,133	456,420
Current assets			
Inventories	10	310,132	382,661
Trade and bills receivables	11	442,375	173,653
Prepayments, deposits and other receivables	12	996,017	967,474
Restricted bank deposits	13	434,064	411,312
Cash and cash equivalents	14	273,445	123,715
		2,456,033	2,058,815
Total assets		2,902,166	2,515,235
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	7,162	7,162
Reserves		1,063,297	1,058,050
		1,070,459	1,065,212
Non-controlling interests in equity		43,007	40,938
Total equity		1,113,466	1,106,150

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	9	5,134	5,370
Other non-current liabilities	19	9,105	8,211
		14,239	13,581
Current liabilities			
Trade and bills payables	16	490,172	547,246
Accruals and other payables	17	130,939	137,321
Borrowings	18	1,043,608	599,089
Current income tax liabilities		68,182	70,288
Other current liabilities	19	41,560	41,560
		1,774,461	1,395,504
Total liabilities		1,788,700	1,409,085
Total equity and liabilities		2,902,166	2,515,235
Net current assets		681,572	663,311
Total assets less current liabilities		1,127,705	1,119,731

The notes on pages 27 to 56 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June 2012 RMB'000	 2011 RMB'000
Revenue	20	1,163,958	1,441,150
Cost of sales	23	(981,755)	(1,229,228)
Gross profit		182,203	211,922
Other income	21	6,857	8,070
Other losses — net	22	(938)	(3,444)
Selling and marketing expenses	23	(85,629)	(80,286)
Administrative expenses	23	(71,448)	(56,897)
Operating profit		31,045	79,365
Finance income		7,706	2,720
Finance costs		(24,321)	(10,717)
Finance costs — net	24	(16,615)	(7,997)
Profit before income tax		14,430	71,368
Income tax expense	25	(9,696)	(22,285)
Profit for the period		4,734	49,083
Attributable to:			
– Equity holders of the Company		2,565	47,945
– Non-controlling interests		2,169	1,138
		4,734	49,083
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	26	0.24	4.57
– Diluted	26	0.23	4.55
Dividends	27	—	—

The notes on pages 27 to 56 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Profit for the period	4,734	49,083
Other comprehensive income	—	—
Total comprehensive income for the period	4,734	49,083
Attributable to:		
– Equity holders of the Company	2,565	47,945
– Non-controlling interests	2,169	1,138
	4,734	49,083

The notes on pages 27 to 56 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							
	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 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 the year 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	23	–	–	–	6,120	–	6,120	–	6,120
Balance at 30 June 2011		7,162	827,784	21,137	(66,957)	304,089	1,093,215	38,355	1,131,570
Balance at 1 January 2012		7,162	827,784	28,007	(62,524)	264,783	1,065,212	40,938	1,106,150
Profit/Total comprehensive income for the six months ended 30 June 2012		–	–	–	–	2,565	2,565	2,169	4,734
Dividends paid by a subsidiary to non-controlling interests		–	–	–	–	–	–	(100)	(100)
Pre-IPO Option Scheme – value of employee services	23	–	–	–	2,682	–	2,682	–	2,682
Balance at 30 June 2012		7,162	827,784	28,007	(59,842)	267,348	1,070,459	43,007	1,113,466

The notes on pages 27 to 56 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	Unaudited Six months ended 30 June 2012 RMB'000	 2011 RMB'000
Cash flows from operating activities:			
Cash (used in)/generated from operations		(161,252)	52,796
Interest paid		(22,720)	(2,650)
Income tax paid		(16,954)	(28,727)
Net cash (used in)/generated from operating activities		(200,926)	21,419
Cash flows from investing activities:			
Acquisition of subsidiary, net of cash acquired		—	(46,627)
Purchase of property, plant and equipment		(10,588)	(36,734)
Prepayments for land use rights	7	—	(125,047)
Purchase of intangible assets	8	—	(492)
Proceeds from disposal of property, plant and equipment		240	325
Interest received		4,409	2,720
Net cash used in investing activities		(5,939)	(205,855)
Cash flows from financing activities:			
Proceeds from bank borrowings	18	626,519	120,000
Repayments of bank borrowings	18	(182,000)	—
Restricted bank deposits pledged for bank borrowings	13	(87,495)	—
Capital contribution from non-controlling interests		—	22,000
Dividend paid by a subsidiary to non-controlling interests		(100)	(100)
Net cash generated from financing activities		356,924	141,900
Increase /(decrease) in cash and cash equivalents		150,059	(42,536)
Cash and cash equivalents at beginning of the period	14	123,715	181,632
Exchange differences on cash and cash equivalents		(329)	(28)
Cash and cash equivalents at end of the period	14	273,445	139,068

The notes on pages 27 to 56 are an integral part of these condensed consolidated interim financial statements.

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

1 GENERAL INFORMATION

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

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

The Group's businesses were primarily carried out by Yangzhou Huiyin Household Appliance Co., Ltd. ("Yangzhou Huiyin") and its subsidiaries. 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 2012 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 2011, 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 22 August 2012.

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 2011.

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

There are no new/revised standards, amendments and interpretations to existing standards mandatory for the financial year beginning on 1 January 2012 that are relevant to the Group's operations.

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 2012.

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 2011. During the six months ended 30 June 2012, there have been changes in estimates that are required in determining the impairment for goodwill (see Note 8) and provision for supplier rebates receivable.

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 condensed consolidated interim 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 2011.

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

5 FINANCIAL RISK MANAGEMENT *(continued)*

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.

	Within 3 months RMB'000	Between 3 to 6 months RMB'000	Between 6 to 12 months RMB'000
As at 30 June 2012			
Borrowings (Note 18)	309,249	549,280	185,079
Interest payments on borrowings (note)	13,191	5,626	2,594
Trade and bills payables (Note 16)	277,337	212,835	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 17)	32,877	—	—
	632,654	767,741	187,673
As at 31 December 2011			
Borrowings (Note 18)	50,000	196,400	352,689
Interest payments on borrowings (note)	8,702	6,244	4,623
Trade and bills payables (Note 16)	319,166	228,080	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 17)	28,174	—	—
	406,042	430,724	357,312

Note:

The interest payments on borrowings are calculated based on borrowings held as at 30 June 2012 and 31 December 2011 respectively without taking into account of future borrowings.

5 FINANCIAL RISK MANAGEMENT *(continued)*

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

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.

6 SEGMENT INFORMATION *(continued)*

The unaudited segment results for the six months ended 30 June 2012 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Unallocated* RMB'000	Group RMB'000
Segment revenue	403,703	993,524	5,573	—	1,402,800
Inter-segment revenue	—	(238,842)	—	—	(238,842)
Revenue from external customers	403,703	754,682	5,573	—	1,163,958
Operating profit/(loss)	8,511	25,426	988	(3,880)	31,045
Finance costs - net					(16,615)
Profit before income tax					14,430
Income tax expense					(9,696)
Profit for the period					4,734
Other segment items are as follows:					
Capital expenditure	6,154	4,301	—	—	10,455
Depreciation charge	6,914	6,058	37	—	13,009
Amortisation charge	741	1,614	—	—	2,355

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	7,826	3,082	3	—	10,911
Amortisation charge	494	1,577	—	—	2,071

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

6 SEGMENT INFORMATION *(continued)*

Unaudited assets and liabilities as at 30 June 2012 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
2012				
Segment assets	319,298	2,407,697	137,663	2,864,658
Unallocated assets				37,508
Total assets				2,902,166
Segment liabilities	140,694	527,313	2,804	670,811
Unallocated liabilities				1,117,889
Total liabilities				1,788,700

The audited segment assets and liabilities as at 31 December 2011 are as follows:

	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
2011				
Segment assets	392,207	1,945,432	140,151	2,477,790
Unallocated assets				37,445
Total assets				2,515,235
Segment liabilities	150,526	576,392	6,733	733,651
Unallocated liabilities				675,434
Total liabilities				1,409,085

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, investment properties, land use rights and intangible assets, including additions resulting from acquisitions through business combinations.

7 CAPITAL EXPENDITURE OTHER THAN INTANGIBLE ASSETS

	Land use rights RMB'000	Property, plant and equipment RMB'000	Investment properties RMB'000	Prepayment for land use rights (i) RMB'000
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	—	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
Six months ended 30 June 2012				
Opening net book amount at 1 January 2012	17,792	186,609	23,456	125,047
Additions	—	10,455	—	—
Transfer in/(out)	—	(4,659)	4,659	—
Disposals	—	(294)	—	—
Amortisation and depreciation (Note 23)	(339)	(12,658)	(351)	—
Closing net book amount at 30 June 2012	17,453	179,453	27,764	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 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 ended 30 June 2011, the Group established a new subsidiary together with a third party to jointly develop the project on this Land Parcel, which is intended to develop into 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.

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

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 2012, land use rights, buildings and investment properties with a total net book value of RMB 12,555,000, RMB 46,890,000 and RMB 27,764,000 respectively (31 December 2011: RMB 12,716,000, RMB 52,180,000 and RMB 23,456,000 respectively) together with restricted bank deposits had been pledged as collateral for the Group's bank acceptable bills of RMB 27,500,000 (31 December 2011: RMB 72,700,000) (Note 16) and bank borrowings of RMB 28,000,000 (31 December 2011: RMB86,400,000) (Note 18).

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 2012 would have been RMB 34,067,000 (31 December 2011: RMB27,900,000). 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 2011 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 2012 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 2011 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 2011					
Opening net book amount at 1 January 2011	34,060	—	3,499	3,610	41,169
Additions	—	—	—	492	492
Acquisition of a subsidiary	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
Six months ended 30 June 2012					
Opening net book amount at 1 January 2012	45,723	20,634	3,900	3,098	73,355
Amortisation (Note 23)	—	(1,146)	(475)	(395)	(2,016)
Impairment charge (Note 23)	(10,000)	—	—	—	(10,000)
Closing net book amount at 30 June 2012	35,723	19,488	3,425	2,703	61,339

The amortisation and impairment of intangible assets have been included in administrative expenses.

Impairment tests for goodwill

Goodwill is allocated to the group's CGU identified according to operating segment. Goodwill of RMB 14,163,000 is allocated to the CGU of Nanjing Chaoming Technology Development Co., Ltd. ("Nanjing Chaoming") and RMB 34,060,000 is allocated to the CGU of Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd. (previously known as "Huainan Four Seas Huiyin Household Appliances Co., Ltd.") ("Huainan Four Seas").

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

8 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill arose from the acquisition of Nanjing Chaoming

The key assumptions used for fair value less costs to sell calculations of Nanjing Chaoming as at 30 June 2012 are as follows:

	Year ended 31 December					
	2012	2013	2014	2015	2016	After 2016
Growth rate of existing scale	10%	11%	11%	11%	9%	Nil
Growth of revenue resulting from new stores to open	2%	35%	10%	10%	8%	Nil
Terminal growth rate	Nil	Nil	Nil	Nil	Nil	3%
Discount rate	17.61%	17.61%	17.61%	17.61%	17.61%	17.61%

The key assumptions used for fair value less costs to sell calculations of Nanjing Chaoming as at 31 December 2011 are as follows:

	Year ended 31 December					
	2012	2013	2014	2015	2016	After 2016
Growth rate of existing scale	30%	30%	15%	15%	10%	Nil
Growth of revenue resulting from new stores to open	20%	50%	20%	10%	8%	Nil
Terminal growth rate	Nil	Nil	Nil	Nil	Nil	3%
Discount rate	17.61%	17.61%	17.61%	17.61%	17.61%	17.61%

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

Impairment charge of RMB 10,000,000 arose during the course of the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

8 INTANGIBLE ASSETS *(continued)*

(b) Impairment test for goodwill arose from the acquisition of Huainan Four Seas

The key assumptions used for fair value less costs to sell calculations of Huainan Four Seas as at 30 June 2012 and 31 December 2011 are as follows:

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

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

No impairment charge arose during the course of the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

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 2012 RMB'000	31 December 2011 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	11,943	11,060
– to be recovered after more than 12 months	23,134	19,101
	35,077	30,161
Deferred income tax liabilities:		
– to be settled within 12 months	835	784
– to be settled after more than 12 months	4,299	4,586
	5,134	5,370

9 DEFERRED INCOME TAX *(continued)*

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
At beginning of the period	24,791	9,677
Acquisition of a subsidiary	—	(5,731)
Recognised in the consolidated income statement (Note 25)	5,152	3,818
At end of the period	29,943	7,764

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	Unrealised profit elimination RMB'000	Provisions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	3,844	—	1,150	1,886	686	3,833	11,399
Recognised in the consolidated income statement	2,762	510	577	1,127	187	(901)	4,262
At 30 June 2011	6,606	510	1,727	3,013	873	2,932	15,661
At 1 January 2012	11,281	200	3,043	1,072	9,522	5,043	30,161
Recognised in the consolidated income statement	1,803	554	(883)	962	2,154	326	4,916
At 30 June 2012	13,084	754	2,160	2,034	11,676	5,369	35,077

9 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities

	Withholding tax on unremitted earnings of subsidiaries RMB'000	Distribution agreement RMB'000	Total RMB'000
At 1 January 2011	1,722	—	1,722
Acquisition of a subsidiary	—	5,731	5,731
Recognised in the consolidated income statement	730	(286)	444
At 30 June 2011	2,452	5,445	7,897
At 1 January 2012	211	5,159	5,370
Recognised in the consolidated income statement	51	(287)	(236)
At 30 June 2012	262	4,872	5,134

10 INVENTORIES

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Merchandise held for resale	312,631	385,149
Provision for obsolescence	(3,376)	(3,448)
	309,255	381,701
Low value consumables	877	960
Total	310,132	382,661

11 TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade receivables	**130,453**	144,830
Less: Provision for impairment	**(1,020)**	(871)
Trade receivables, net	**129,433**	143,959
Bills receivable	**312,942**	29,694
Trade and bills receivables, net	**442,375**	173,653

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

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

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
0 - 30 days	**40,269**	59,825
31 - 90 days	**76,646**	65,240
91 - 365 days	**12,476**	18,894
1 year - 2 years	**900**	871
2 years - 3 years	**162**	—
Total	**130,453**	144,830

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 2012, bills receivable with a carrying amount of RMB 3,300,000 (31 December 2011: Nil) had been pledged as collateral for bank acceptance bills of RMB 3,300,000 (31 December 2011: Nil) (Note 16).

As at 30 June 2012, bills receivable with a carrying amount of RMB 150,000,000 were discounted to the bank with recourse, the proceeds of RMB146,596,000 received from the bank were recorded as "borrowings" as at 30 June 2012 accordingly (Note 18).

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Advance payments to suppliers	452,065	418,884
Rebates receivable from suppliers, net of provision	466,654	473,572
Prepaid rentals	20,329	26,222
Deposits	11,194	13,276
Prepaid consulting fees	1,312	1,584
Other prepayments	1,864	1,440
Other receivables from third parties		
– Value added tax recoverable	33,906	27,397
– Interests receivable from banks	6,189	2,892
– Staff advances	938	1,131
– Amount paid on behalf of a supplier	256	—
– Others	1,310	1,076
	996,017	967,474

Provision of RMB8,905,000 (Six months ended 30 June 2011: Nil) for supplier rebates receivable had been recognised during the period considering the increased operating pressure of suppliers in the industry.

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

As at 30 June 2012, restricted bank deposits of RMB156,304,000 (31 December 2011: RMB195,480,000) had been pledged as collateral for bank acceptance bills of RMB408,535,000 (31 December 2011: RMB435,030,000) (Note 16).

As at 30 June 2012, restricted bank deposits of RMB 269,510,000 (31 December 2011: RMB182,015,000) had been pledged as collateral for bank borrowings of RMB 407,933,000 (31 December 2011: RMB212,689,000)(Note 18).

As at 30 June 2012, restricted bank deposits of RMB 8,250,000 (31 December 2011: RMB 31,317,000), together with certain land use rights, buildings and investment properties with a total net book amount of RMB 87,209,000 (31 December 2011: RMB 88,352,000) (Note 7) had been pledged as collateral for bank acceptance bills of RMB 27,500,000 (31 December 2011: RMB 72,700,000) (Note 16) and bank borrowings of RMB 28,000,000 (31 December 2011: RMB86,400,000) (Note 18).

As at 31 December 2011, restricted bank deposits of RMB 2,500,000 had been pledged as collateral for bank acceptance bills of RMB 4,500,000 (Note 16), together with a personal guarantee of RMB2,000,000 provided by a third party.

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 3.34% at 30 June 2012 (31 December 2011: 3.4%).

14 CASH AND CASH EQUIVALENTS

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
Cash on hand		
– denominated in RMB	488	520
Cash at bank		
– denominated in RMB	270,526	116,052
– denominated in HK$	702	1,773
– denominated in US$	1,729	5,370
	272,957	123,195
	273,445	123,715

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

	As at 30 June 2012	As at 31 December 2011
RMB	0.400%	0.500%
HK$	0.001%	0.001%
US$	0.001%	0.001%

15 SHARE CAPITAL

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

	Par value	Number of ordinary shares	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB'000
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
Six months ended 30 June 2012				
Authorised:				
At 1 January 2012 and 30 June 2012	US$0.001	2,000,000,000	2,000,000	10,598
Issued and fully paid:				
At 1 January 2012 and 30 June 2012	US$0.001	1,048,342,290	1,048,342	7,162

15 SHARE CAPITAL *(continued)*

Notes*:*

(a) 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 2012, 16,666,667 outstanding options were not exercisable as they have not yet been vested, and 33,333,333 options were exercisable but not exercised by anyone of the key management and senior management members. These options with an exercise price of HK$1.52 per share upon vesting will be expired on 24 March 2015.

(b) The Share Option Scheme was approved by the Group on 5 March 2010. The board of the 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 2012.

16 TRADE AND BILLS PAYABLES

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade payables	50,837	35,016
Bills payable	439,335	512,230
Total	490,172	547,246

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:

16 TRADE AND BILLS PAYABLES (continued)

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
0 - 30 days	20,957	13,622
31 - 90 days	15,873	9,223
91 - 365 days	11,225	10,994
1 year - 2 years	2,782	1,177
	50,837	35,016

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 2012, restricted bank deposits of RMB 156,304,000 (31 December 2011: RMB195,480,000) (Note 13) had been pledged as collateral for bank acceptance bills of RMB 408,535,000 (31 December 2011: RMB 435,030,000).

As at 30 June 2012, restricted bank deposits of RMB 8,250,000 (31 December 2011: RMB 31,317,000) (Note 13), together with certain land use rights, buildings and investment properties with a total net book amount of RMB 87,209,000 (31 December 2011: RMB 88,352,000) (Note 7) had been pledged as collateral for bank acceptance bills of RMB 27,500,000 (31 December 2011: RMB 72,700,000) and bank borrowings of RMB 28,000,000 (31 December 2011: RMB 86,400,000) (Note 18).

As at 30 June 2012, bills receivable with a carrying amount of RMB 3,300,000 (31 December 2011: Nil) (Note 11) had been pledged as collateral for bank acceptance bills of RMB 3,300,000 (31 December 2011: Nil).

As at 31 December 2011, restricted bank deposits of RMB 2,500,000 (Note 13) had been pledged as collateral for bank acceptance bills of RMB 4,500,000, together with a personal guarantee of RMB 2,000,000 provided by a third party.

17 ACCRUALS AND OTHER PAYABLES

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Advances from customers	66,659	87,519
Value added tax and other tax payables	16,289	10,091
Salary and welfare payables	15,114	11,537
Payables for purchase of equipment	15,037	15,170
Accrued expenses	8,403	8,344
Deposits from franchisees	3,707	2,341
Accrued volume discounts to distributors	3,017	800
Amount due to a director (Note 30(d))	393	146
Others	2,320	1,373
Total	130,939	137,321

17 ACCRUALS AND OTHER PAYABLES *(continued)*

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 2012 RMB'000	31 December 2011 RMB'000
Short term bank borrowings	**1,043,608**	599,089

Movement in borrowings is analysed as below:

	Short term bank borrowings RMB'000
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
Six months ended 30 June 2012	
Opening amount at 1 January 2012	**599,089**
Proceeds from bank borrowings	**626,519**
Repayments of bank borrowings	**(182,000)**
Closing amount as at 30 June 2012	**1,043,608**

As at 30 June 2012, restricted bank deposits of RMB 8,250,000 (31 December 2011: RMB 31,317,000) (Note 13), together with certain land use rights, buildings and investment properties with a total net book amount of RMB 87,209,000 (31 December 2011: RMB 88,352,000) (Note 7) had been pledged as collateral for bank acceptance bills of RMB 27,500,000 (31 December 2011: RMB 72,700,000) (Note 16) and bank borrowings of RMB 28,000,000 (31 December 2011: RMB86,400,000).

As at 30 June 2012, restricted bank deposits of RMB 269,510,000 (31 December 2011: RMB182,015,000) (Note 13) had been pledged as collateral for bank borrowings of RMB 407,933,000 (31 December 2011: RMB212,689,000).

As at 30 June 2012, bills receivable with a carrying amount of RMB 150,000,000 (Note 11) was discounted to the bank with recourse, the proceeds of RMB146,596,000 received from the bank were recorded as "borrowings" as at 30 June 2012 accordingly.

As at 30 June 2012, short term bank borrowings amounting to RMB 461,079,000 (31 December 2011: RMB 300,000,000) were unsecured.

18 BORROWINGS *(continued)*

As at 30 June 2012, bank borrowings of US$ 45,220,000 (equivalent to approximately RMB 286,012,000) (31 December 2011: US$ 25,820,000, equivalent to approximately RMB 162,689,000) are denominated in US$ and bank borrowings of RMB 757,596,000 (31 December 2011: RMB 436,400,000) are denominated in RMB. As at 30 June 2012 and 31 December 2011, all borrowings are of floating rates. The carrying amounts of short term borrowings approximate their fair value as at balance sheet date.

In accordance with the borrowing agreements, out of the bank borrowings of US$20,820,000 (31 December 2011: US$15,820,000), an amount of US$ 15,000,000, equivalent to RMB 94,874,000 (31 December 2011: US$10,000,000, equivalent to RMB63,009,000), is to be utilised for the operation in the overseas by the Company, and is not allowed to be utilised in the Mainland China directly or through third parties in the form of financing, shareholding investment or security investment and etc, otherwise the bank reserves the right to demand repayment of all outstanding principal and interest thereon if the clause is breached. The remaining balance of US$ 5,820,000, equivalent to RMB 36,811,000 (31 December 2012: US$ 5,820,000, equivalent to RMB 36,671,000), is to be utilized solely for general corporate funding requirements of Yanghzou Huiyin in Hong Kong and overseas, to the extent permitted under the foreign exchange regulations of the PRC, and cannot be used for capital investment in Mainland China directly or through third parties in any forms. As at 30 June 2012, the bank borrowings of US$ 19,999,980, equivalent to RMB126,499,000 (31 December 2011: US$14,999,980, equivalent to RMB95,367,000), have been injected as the capital contribution in Yangzhou Huiyin, which were registered at local administration of foreign exchange. In the event that immediate repayment of these borrowings are requested by the banks, the directors of the Company believe that the Company has the ability to repay the amount by internal cash resource and/or new borrowings.

The weighted average effective interest rate as at 30 June 2012 was 5.44% (31 December 2011: 6.31%). As at 30 June 2012, the Group's borrowings were repayable within one year.

19 CONTINGENT CONSIDERATION LIABILITIES

	Contingent consideration liabilities arising from business combination RMB'000
At 1 January 2012	49,771
Changes in fair value (Note 22)	894
At 30 June 2012	50,665
Including	
– Current portion	41,560
– Non-current portion	9,105
	50,665

19 CONTINGENT CONSIDERATION LIABILITIES *(continued)*

On 20 September 2010, a subsidiary of the Group Yangzhou Huiyin entered into a co-operation agreement with Huainan Xingfushu Electrical Appliances Company Limited ("Xingfushu") and an independent third party Mr. Jin ("JV partner"), who was the 90% owner of Xingfushu, for the formation and operation of a new entity Huainan Four Seas, and acquisition of business by Huainan Four Seas from Xingfushu comprising inventories, sales network and leases of shops. Huainan Four Seas started business on 1 November 2010, meanwhile Xingfushu ceased its business.

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

During the six months ended 30 June 2012, there was an increase in fair values of RMB 894,000 (Note 22) recognized as losses in the consolidated income statement for the contingent consideration arrangement. As at 30 June 2012, the fair values of the contingent consideration liabilities of RMB 50,665,000 (31 December 2011: RMB49,771,000), including current portion of RMB 41,560,000 (31 December 2011: RMB 41,560,000) and non-current portion of RMB9,105,000 (31 December 2011: RMB8,211,000) was estimated by applying the income approach.

20 REVENUE

Turnover of the Group comprises revenues recognised as follows:

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Sales of goods		
– Retail	403,703	533,071
– Bulk distribution	754,682	899,491
including:		
Sales to franchisees	216,086	370,397
Sales to other retailers and distributors	538,596	529,094
	1,158,385	1,432,562
Rendering of services		
– Maintenance service	295	1,046
– Installation service	5,278	7,542
	5,573	8,588
Total revenue	1,163,958	1,441,150

21 OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Promotion and store display income	4,311	5,098
Subsidies of transportation and old merchandise arising from the Change of the Old for New Program	1,145	2,152
Rental income	668	510
Government subsidies (i)	733	310
	6,857	8,070

Note:

(i) The government subsidy income for the six months ended 30 June 2012 represented a subsidy of RMB300,000 (Six months ended 30 June 2011: RMB209,000) and RMB200,000 (Six months ended 30 June 2011: Nil) granted by Government of Yangzhou City and government of Huainan City respectively for enterprise development and an amount of RMB233,700 (Six months ended 30 June 2011: 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.

22 OTHER LOSSES - NET

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Net exchange gains on monetary receivables and payables	10	305
Fair value losses on contingent consideration liabilities (Note 19)	(894)	(3,711)
Losses on disposal of property, plant and equipment, net	(54)	(38)
	(938)	(3,444)

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	
	2012 RMB'000	2011 RMB'000
Cost of merchandise before deducting supplier rebates	1,282,657	1,538,592
Supplier rebates	(303,079)	(313,051)
Taxes and levies on main operations	2,249	2,053
Employee benefit expenses - including the directors' emoluments	37,914	32,844
Pre-IPO Option Scheme expenses	2,682	6,120
Service charges	3,093	8,294
Operating lease expenses in respect of buildings and warehouses	32,358	24,651
Promotion and advertising expenses	15,024	15,065
Amortisation of land use rights (Note 7)	339	219
Depreciation of property, plant and equipment (Note 7)	12,658	10,593
Depreciation of investment properties (Note 7)	351	318
Amortisation of intangible assets (Note 8)	2,016	1,852
Utilities and telephone expenses	6,077	5,185
Transportation expenses	4,600	7,808
Entertainment fees	1,915	2,790
Travelling expenses	2,155	2,216
Office expenses	1,254	1,249
(Reversal of)/Additional provision for obsolescence on inventories (Note 10)	(72)	1,634
Additional/(Reversal of) provision for impairment on receivables (Note 11)	149	(794)
Impairment losses against goodwill (Note 8)	10,000	—
Provision for supplier rebates receivable	8,905	—
Property tax and other taxes	1,778	1,498
Auditor's remuneration	1,655	1,875
Bank charges	4,426	2,241
Consulting expenses	997	1,828
Others	6,731	11,331
Total of cost of sales, selling and marketing expenses and administrative expenses	1,138,832	1,366,411

24 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Interest income on bank deposits	7,706	2,720
Finance costs		
– Interest expenses on discounting of bills receivable	—	(8,039)
– Interest expenses on discounting of bills receivable with recourse	(576)	—
– Interest expenses on bank borrowings	(23,416)	(2,650)
– Net foreign exchange losses on cash and cash equivalents and bank borrowings	(329)	(28)
	(24,321)	(10,717)
Net finance costs	(16,615)	(7,997)

25 INCOME TAX EXPENSE

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
PRC enterprise and withholding income taxes		
– Current income tax	14,848	26,103
– Deferred income tax (Note 9)	(5,152)	(3,818)
	9,696	22,285

(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 2012 (30 June 2011: Nil).

(b) PRC enterprise income tax

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

(c) PRC withholding income tax

According to the new CIT law, starting from 1 January 2008, a 10% withholding tax is levied on the immediate holding company 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 the six months ended 30 June 2012 (30 June 2011: 10%).

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.

	Six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**2,565**	47,945
Weighted average number of ordinary shares in issue (thousand)	**1,048,342**	1,048,342
Basic earnings per share (RMB cents)	**0.24**	4.57

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

	Six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**2,565**	47,945
Weighted average number of ordinary shares in issue (thousand)	**1,048,342**	1,048,342
Adjustments for:		
– Share options granted under the Pre-IPO Option Scheme (thousand)	**—**	6,320
– Settlement in ordinary shares for the contingent consideration arising from business combination (thousand)	**88,340**	—
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**1,136,682**	1,054,662
Diluted earnings per share (RMB cents)	**0.23**	4.55

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 2012 (2011: Nil).

28 COMMITMENTS

(a) Commitments for capital and property development expenditure

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
Contracted but not provided for		
– Buildings	–	2,660
– Land use rights	117,710	117,710
	117,710	120,370

(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 2012 RMB'000	As at 31 December 2011 RMB'000
Not later than 1 year	49,165	59,705
Later than 1 year and not later than 5 years	178,429	214,766
Later than 5 years	100,606	136,875
	328,200	411,346

29 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 2012 RMB'000	31 December 2011 RMB'000
Not later than 1 year	7,450	1,751
Later than 1 year and not later than 5 years	15,336	906
Later than 5 years	200	24
	22,986	2,681

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.

30 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 operating decisions. Parties are also considered to be related if they are subject to common control. In accordance with the revised HKAS 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. Similarity 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 personal of the other entity. On the other hand, non-controlling interests of subsidiaries are no longer regarded as related parties unless they meet the new definition under the revised HKAS 24. 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

30 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Continuing transactions:		
– Rental expenses to a related party		
Mr. Cao Kuanping	**405**	525
– Directors' emoluments		
Salaries, bonus and other welfares	**4,565**	7,246

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.

(c) Key management compensation

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Salaries and other allowances	**1,688**	1,621
Social security costs	**114**	95
Pre-IPO Option Scheme expenses	**2,682**	5,386
	4,484	7,102

30 RELATED PARTY TRANSACTIONS *(continued)*

(d) Balances with related parties

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

	As at	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Balances due to related parties:		
Accruals and other payables (Note 17)		
— Mr. Cao Kuanping	393	146
Salaries and bonuses payable to directors		
— Mr. Cao Kuanping	–	152
— Mr. Mao Shanxin	–	22
— Mr. Mo Chihe	–	23
— Mr. Wang Zhijin	–	131
— Mr. Lu Chaolin	–	68
	–	396
	393	542

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.

31 CONTINGENCIES

In respect of the acquisition of the business of Xingfushu through Huainan Four Seas on 1 November 2010 (Note 19), a consideration equal to the Net Operating Profit of Huainan Four Seas for the First Operating Year times 6.5 minus RMB19,500,000 may be payable to the JV Partner 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 the Huainan Four Seas exceeds RMB30,000,000, Yangzhou Huiyin shall pay the JV partner a Bonus Consideration of RMB12,000,000. 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 (the "Shares"), 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.

32 SUBSEQUENT EVENTS

As announced by the Company on 26 April 2011, Yangzhou Huiyin, a wholly-owned subsidiary of the Company, proposed to issue Medium-Term Notes ("Notes") in the PRC with an aggregate principal amount of not more than RMB 400 million. An application had been made for the registration of the Notes with the National Association of Financial Market Institutional Investors ("Association").

On 20 July 2012, Yangzhou Huiyin received the notice of acceptance for registration from the Association confirming the registration of the issue of the Notes with the Association. According to the notice, it was approved, inter alia, Yangzhou Huiyin may issue the Notes in an aggregate principal amount of RMB 390 million, within a period of two years from the date of the notice. The Notes shall be listed and transferable on the inter-bank debenture market in the PRC.

On 20 August 2012, Yangzhou Huiyin completed the issuance of the Notes in the PRC in the amount of RMB 390 million, at the interest rate of 6.3% per annum, and with a term of three years. 74.36% of the proceeds from the issue of the Notes will be used for enhancing sales network and 25.64% of the proceeds will be used for repaying part of the existing bank loans of Yangzhou Huiyin.