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

2012

ANNUAL REPORT

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mr. Cao Kuanping
Ms. Ngai Kit Fong

REGISTERED OFFICE

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Willow House
Cricket Square
P.O. Box 2804
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Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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Jiangsu Province
PRC

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

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AUDITOR

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Certified Public Accountants
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Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Hong Kong

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No. 2 Wenhe North Road
Yangzhou City
Jiangsu Province
PRC

Agricultural Bank of China (Runyang Sub-branch)
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Yangzhou City
Jiangsu Province
PRC

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

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PRC

STOCK CODE

1280

WEBSITE OF THE COMPANY

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

Financial and Operational Highlights

HIGHLIGHTS

1. Revenue for 2012 was RMB2,457.5 million, a decrease of 13.3% compared with 2011.

2. Gross profit margin for 2012 was 12.6%, while that of 2011 was 12.8%.

3. Operating loss was approximately RMB224.6 million for 2012, while there was operating profit of approximately RMB53.7 million for 2011.

4. Loss of the Group for the year was approximately RMB227.0 million, while there was profit of approximately RMB19.0 million for the year of 2011.

5. As at 31 December 2012, the Group had a total of 54 self-operated stores, a decrease of 11.5% from 61 stores at the end of 2011.
   Retail revenue represented 33.6% of the total revenue of the Group for 2012 (38.1% for 2011).

CHAIRMAN'S STATEMENT

During the year, with the competitive strength of the "Huiyin" brand as a foundation and closely linking up with its "Huiyin e-commerce platform", the Group has further improved its brand awareness and influence in the third and fourth-tier household appliance markets in China.

Cao Kuanping
Chairman

Dear Shareholders,

On behalf of the Board of Directors ("the Board" or "the Directors") of Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company") and its subsidiaries ("the Group" or "Huiyin Household Appliances"), I am pleased to present the annual report of the Group for the year ended 31 December 2012.

2012 was a year of both opportunities and challenges for the Group. The global economy experienced a slow recovery while the international financial market was volatile. Under the adverse influence of the expectation of a weak macro-economy, growth of the domestic market in the PRC slowed down. Meanwhile, the industry was facing the pressure of persistent rising costs, the ending of the "Rural Appliance Rebate Program" (家電下鄉) and the continuous strict control policy over the real estate industry, the PRC household appliance industry was under great operational pressure. However, the "Energy-Saving Products Subsidizing Program" (節能產品惠民工程) launched by the Central Government encouraged the household appliance industry to carry out structural adjustment and industrial upgrades, which brought a new source of growth momentum to the domestic household appliance market by way of product replacement and upgrades, and mitigated the negative influence of the sluggish consumer market to a certain extent. Due to the crossed influence of the above factors, loss of the Group for the year was approximately RMB 227.0 million, while there was profit of approximately RMB 19.0 million for 2011. The gross profit margin recorded a year-on-year decrease of 0.2 percentage point to 12.6%. For the year ended 31 December 2012, the Group recorded revenue of RMB 2,457.5 million, representing a decrease of 13.3% as compared to RMB 2,835.1 million for 2011. The loss for the year attributable to equity holders of the Company was approximately RMB 226.7 million, while there was profit of approximately RMB 15.5 million for the year of 2011. The basic loss per share was RMB 21.62 cents for the year of 2012.

"THREE-IN-ONE" INTEGRATED BUSINESS MODEL

During the year, despite facing various challenges, the Group consistently implemented an innovative "three-in-one" business model by integrating retail sales, wholesale distribution (including sales to franchised stores) and after-sales services to continuously optimize and expand the sales networks in target markets. By implementing the development strategy of supplementing sizable franchised stores with self-operated stores, strengthening the strategic cooperation with well-known brands and carrying out a diversified customer-based marketing and promotion model, the Group maintained its competitive advantages in protecting brand image and expanding retail network, which in turn retained the relatively stable development of each business segment. During the year, with the competitive strength of the "Huiyin" brand as a foundation and closely linking up with its "Huiyin e-commerce platform", the Group has further improved its brand awareness and influence in the third and fourth-tier household appliance markets in China.

Through the business model of integrating the bulk distribution segment with retail segment, the Group was engaged by a number of renowned household appliances and consumer electronics brands as their bulk distributor on continuing basis. At the end of 2012, the Group operated and managed 54 after-sales service points and vigorously promoting the "extended warranty plan" (「汇金保」延保計劃) to provide consumers with comprehensive and diversified after-sales protections.

DEEPEN THE CORPORATE STRATEGY ARRANGEMENT

In 2012, while improving its corporate governance and general operational level, the Group further deepened its corporate strategy arrangement. In order to cater for the State policy of developing energy-saving home appliances and meet the increasing consumer demand for energy-saving household appliances, the Group proactively optimized its products mix and categories and adopted diversified promotion strategies targeting at demands from different markets and new customer bases through reforms on resources consolidation, improvement of employees' skills, management over supply chain and corporate promotions. In addition, the Group introduced several high-tech products during the year and increased the proportion of high-end products sales to strengthen the overall competitiveness of the Group's stores. Meanwhile, the Group launched a long-term customer membership plan with a view to implement the long-term customer marketing model, and realized electronic management over customer resources in order to increase the marketing and promotional efforts of the Group.

On brand strategy, "Huiyin e-commerce platform" achieved good progress during the year, with the brand promotion coverage extended to Jiangsu and Anhui Provinces and part of the surrounding regions. During the year, the Group improved the awareness of the "Huiyin" brand across the State by cross-media cooperation with television, radio and internet. In addition, the Group differentiated its brand credibility and recognition by proactively fulfilling its social responsibility and actively participating in social welfare undertakings for making contributions to the community.

During the year, the Group continuously consolidated and reformed its management information system. Through the management information system, the Group strengthened its human resources management, which enabled the Group to allocate its resources more effectively and enhance human resources and operational efficiency, in order to laid down a solid foundation for the Group to further strengthen its overall competitiveness.

FACING CHALLENGES AND LOOKING AHEAD

Promoting "new urbanization" construction has become the mainstream of China's economic development. During the implementation process of "new urbanization", it is expected the demand in the third and fourth-tier household appliance markets will increase gradually. Meanwhile, the State Council launched the policy of facilitating the consumption of energy-saving household appliances in the first half of 2012. Consequently, functional, smart and energy-saving and environment friendly household appliances have become a new source of consumption growth. With continuous consolidation of the industry structure, the proportion of innovative energy-saving household appliances will continue to increase, which will bring new development opportunities for China's household appliance market.

Looking ahead in 2013, China's household appliance market is still facing many challenges. The Group will continue to leverage on its unique business model and its supply chain advantages in the third and fourth-tier household appliance markets in China and adhere to its cautious and optimistic marketing and promotion strategies to consolidate and maintain the awareness of "Huiyin" brand in China's household appliance market, optimize the business model to enhance management efficiency over each store, and achieve a win-win situation with suppliers and business partners.

In the coming year, the Group will focus on reforms in respect of store layout, brand building and human resources management. By leveraging on the Group's strategic positioning as a leading enterprise in the third and fourth-tier household appliance markets in China, we will focus on "construction of urbanized chain stores" and expand sales network in the target areas by upgrading and consolidating existing franchised stores to increase sales revenue and further expand the Group's market share. In addition, we will strengthen awareness of the "Huiyin" brand through the development of retail sales, distribution by agents, franchise, after-sales service and electronic commerce.

On behalf of the Board, I would like to express my wholehearted thanks to all shareholders and investors who show their care and support for the Company. The solid and sound development of the Group depends on the support from our shareholders, employees and business partners. We believe, with the support and joint efforts from our shareholders, management and employees, the Group will achieve sustainable results to create good investment returns for shareholders and investors in the coming year.

Cao Kuanping
Chairman

Hong Kong, 22 March 2013

Management Discussion and Analysis

Taking advantage of its famous brandname "Huiyin" and "Huiyin e-commerce platform", the Group further enhanced the recognition of the "Huiyin" brand in the target markets and reinforced its leading market position.

BUSINESS REVIEW

An integrated three-pronged business model

The Group has been striving to become a leader in the third and fourth-tier household appliance markets in China. Facing the rapid progress of urbanization, the Group actively captured opportunities and fully leveraged its sales network and resources in the third and fourth-tier markets during the year. The Group continued to pursue its integrated business model, integrating retail sales, bulk distribution (including sales to franchised stores) and after-sales services. Taking advantage of its famous brandname "Huiyin" and "Huiyin e-commerce platform", the Group further enhanced the recognition of the "Huiyin" brand in the target markets and reinforced its leading market position.

The Group actively expanded its business segments and provided support to its existing retail business through its self-operated stores and extensive franchise network. During the year, the Group further standardized its internal operation and communication, and provided extensive after-sales services to clients with supply chain management and client management as the core. Such efforts were well received and recognized by the consumers.

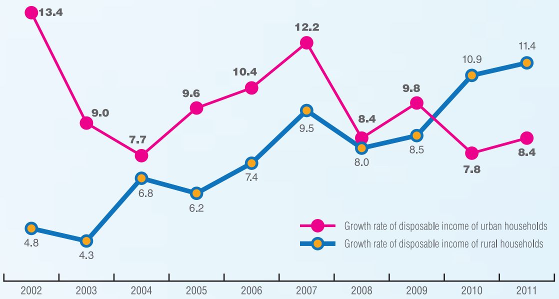
For the year ended 31 December 2012, revenue of the Group was RMB2,457.5 million, down 13.3% as compared with RMB2,835.1 million of last year. Loss of the Group for the year was approximately RMB227.0 million, while there was profit of approximately RMB19.0 million for 2011. Gross profit margin decreased to 12.6%, representing a year-on-year decrease of 0.2 percentage point. Such decrease was attributable to the declining household appliances demand due to the government's macro policy, increasing operating cost pressure in the household appliance industry, provisions made by the Group in respect of the amounts due from suppliers after taking into account of the increased operating pressure in the upstream industry, direct and indirect losses incurred by the Group's flagship store in Yangzhou where a fire had occurred in a neighbouring store, and the underperforming businesses (which were mainly engaged in sale of a Japan branded household appliances) acquired by the Group due to the earthquake in Japan in 2011 and the global financial crisis as well as political negative impact during the year.

Retail business

Self-operated stores

The Group's self-operated stores provide a variety of products and famous brands. Approximately 5,400 product models were available at its self-operated stores as of 31 December 2012. The Group operated 54 self-operated stores, mainly located in Yangzhou, Taizhou, Nanjing, Huai'an, Zhenjiang and Nantong in Jiangsu Province. During the year, the Group actively optimized its product structure and flexibly adjusted product varieties in response to market demand. Benefiting from the rapid development of the internet and mobile application technologies, demand for mobile devices such as smartphones and notebooks grew ever greater. Meanwhile, with more extensive application of environmental, intelligent and cloud technologies, household appliances become more functionalized, intelligent and personalized. The Group launched several energy-saving products during the year, increasing the high-end energy-saving product sales proportion, in a bid to improve profitability of its business.

While optimizing its product mix, the Group also enhanced client relations management and resource integration. In 2012, the Group changed its promotion strategy to a new business strategy focusing on establishing and organizing client relations. Efforts included identifying new clients, establishing and maintaining good relationship with clients, emphasizing interaction and promoting service-oriented marketing, etc. The Group aimed to enhance competitiveness and operational performance of self-operated stores among other stores in the market through various reforms such as resource integration, improvement of staff skills, supply chain management and corporate advertisement during the year.



Source: Website of National Bureau of Statistics of China

As the diversified growth of rural household income became an apparent trend, the income gap between rural and urban residents started to narrow down and the growth of rural household income exceeded urban household income by 3 percentage points

As at 31 December 2012, the Group had a total of 54 self-operated general stores, including 5 operating as shop-in-shops located in department stores mainly offering high-end household appliances and consumer electronic products and 7 stand-alone retail stores selling brand products. During the year ended 31 December 2012, revenue of the self-operated stores of the Group accounted for 33.6% of the total sales revenue of the Group, down approximately 23.6% from the previous year to RMB825.8 million.

Franchised stores

Most of the franchised stores of the Group were operated under the registered brand of "Huiyin", offering more than 1,000 product models to customers in the third and fourth-tier markets. As at 31 December 2012, there were 103 franchised stores under the Group. During the year, the Group enhanced the overall operating and management standards of existing franchised stores to optimize its franchise network and enhance its service quality. Meanwhile, the Group also increased its training efforts to staff of franchised stores, including professional training on product knowledge, sales skills, and planning and promotion, etc., which significantly improved the operating efficency of our franchised stores.

During the year, the Group successfully connected "Huiyin e-commerce platform" to its existing franchised stores, enhancing synergy and interaction of online and offline sales. In addition, the Group also cooperated with franchised stores to carry out sales activities by the franchised stores to their customers in target markets by enhancing the interaction between the headquarters and franchised stores. The Group also arranged outstanding employees to participate in promotional activities of franchised stores in order to effectively increase the recognition and competiveness of franchised stores in target markets. Income derived by the Group from sales to franchised stores amounted to approximately RMB539.4 million for the year ended 31 December 2012, down 22.0% from the previous year, and accounted for approximately 22.0% of the total sales revenue of the Group.

Store network

To increase the Group's market share in target markets and strengthen its leading position in the highly fragmented third and fourth-tier markets, the expansion strategy adopted by the Group in respect of its store network was to expand self-operated stores and franchised stores simultaneously. As at 31 December 2012, the Group's retail network maintained steady development, and the Group had an integrated retail network with 157 stores in 29 cities/districts of Jiangsu and Anhui Provinces, of which 54 and 103 were self-operated stores and franchised stores respectively, and the total number of stores in Jiangsu and Anhui Provinces was 141 and 16, respectively.

Bulk distribution business

The Group as a supplier distributes products to its franchised stores as well as to other independent third parties, mainly including household electronic product retailers and corporate customers. The Group well understands consumers' preferences and demand in third and fourth-tier markets in the PRC and owns an established and extensive sales network in those markets. Leveraging its deep understanding of consumption patterns in the target markets, the Group continued to adopt the model of combining the bulk distribution business with retail business during the year to provide one-stop services integrating delivery, warehousing, account management and distribution logistics to its suppliers.

In response to the challenging market conditions, the Group launched flexible and diversified promotion activities such as group purchase of brand products and warehouse marketing to target customers in 2012, and obtained regional distribution agency rights of refrigerators, washing machines and TV sets under renowned brands during the year. Currently, the Group is a bulk distributor of products for more than 20 international and domestic renowned brands, and remains a long-standing bulk distributor for a number of well-known household appliances and consumer electronic brands in target markets. Leveraging its long-term and close relationship with suppliers, the Group's market position in distribution of brand products was strengthened.

After-sales services

Offering of after-sales services is an important contributor to the continued expansion of the Group's retail and bulk distribution businesses. The Group offers a broad range of installation and maintenance services for the products purchased from the Group or from other third party vendors and suppliers, and has been providing satisfactory services and technical support for the Group's retail and bulk distribution businesses. As at 31 December 2012, the Group operated and managed a total of 54 service centers, including 3 self-operated service centers and 51 authorized service centers, which provided thoughtful and diversified after-sales warranty services for consumers across a broad geographical areas.

During the year, the Group vigorously promoted the sales of the extended warranty plan (「汇金保」延保計劃) and provided appropriate warranty extension schemes based on consumer needs and the market positioning, offering consumers comprehensive and diversified after-sales service protection. The plan covers various household appliances while consumers can 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 consumers since its launch, and has enhanced the Group's product recognition and boosted its customer loyalty.

Efficient logistics management

The Group endeavours to improve logistics management of its existing logistics network, warehouses and distribution centers in order to support its growing business operations. During the year, the Group enhanced information management and implemented real-time monitoring systems relating to its security system, inventory and employee performance. In respect of product distribution, the Group has adopted a paper-less system and optimized system settings and streamlined operating processes to improve its logistics management efficiency.

Accurate marketing and promotion strategies

In response to the energy-saving household appliances development policy introduced by the PRC government, the Group has been actively adopting targeted marketing and business development strategies to cater for the needs of consumers and market in different regions. In 2012, the Group upgraded and renovated a number of stores, optimized the store distribution in various regions and made improvements in sales, management and services.

In respect of customer base expansion, the Group further segmented its customers and actively identified new target consumer groups, including newly-married couples, new property owners as well as corporate customers. Furthermore, the Group launched a loyal customer membership program during the year and achieved an electronic customer information management. This program has enabled the Group to formulate more accurate marketing approaches for loyal customers and improve its marketing and brand promotion strategies.

In respect of brand marketing, "Huiyin e-commerce platform" achieved considerable progress during the year. By building an on-line platform and recruiting additional e-commerce professionals, the Group realized the goal of a year-on-year growth in sales through the "Huiyin e-commerce platform" in 2012. Our brand marketing network covered Jiangsu and Anhui Provinces and some surrounding regions. In addition, the Group increased the brand awareness of its "Huiyin" brand throughout the country by cooperating with multi-media channels including TV, radio and internet during the year.

Management information system integration and upgrade

The Group strives to integrate and innovate its existing management information system, so as to support its growing business operations. In 2012, the Group implemented Global Positioning System (GPS) management for all logistics distribution vehicles, thereby improving the efficiency of distribution vehicles to optimize the logistics and product delivery process. Moreover, the Group rolled out an all-customer membership sales approach on 1 March 2012 and developed a points redemption and customer feedback collection system to enable the Group to conduct targeted and multidimensional analysis of members' consumption behaviours. During the year, the Group successfully installed a store and retail shopping guide system, in order to achieve more reasonable resource allocation and to significantly enhance the functionality of the information management system.

Informational human resources management

As at 31 December 2012, the number of the Group's employees was 997. During the year, the Group adjusted its structure at all levels to improve the professional skills of employees. By adopting informational human resources management, the Group also streamlined its department management process to further develop the human resources management system. In 2012, the Group organized over 600 training sessions of different topics covering staff induction training, product knowledge, sales skills, leadership skills and corporate culture to meet the needs of employees at different levels, with total attendances reaching about 2,300.

During the year, the Group continued to fulfill its corporate social responsibility, and actively participated in community welfare undertakings to the society. In 2012, the Group was honoured with various awards, including "AAA Credit Enterprise (企業信用評價AAA級信用企業)" by China National Household Electronic Appliances Service & Maintenance Association and "Famous Brand of the Service Industry in Jiangsu Province (江蘇服務業品牌)" by the Top Brand Strategy Promotion Committee of Jiangsu Province (江蘇省名牌戰略推進委員會), which highlighted the Group's brand creditworthiness and recognition.

FINANCIAL REVIEW

Revenue

During the year, due to the macro policy and the declined demand in the household appliances consumer market, the Group's revenue was approximately RMB2,457.5 million, representing a decrease of 13.3% from approximately RMB2,835.1 million in 2011.

Turnover of the Group comprises revenues by operation as follows:

	2012 RMB'000		2011 RMB'000	
Retail	825,845	33.6%	1,080,486	38.1%
Bulk distribution				
– Sales to franchisees	539,447	22.0%	691,714	24.4%
– Sales to other retailers and distributors	1,079,800	43.9%	1,043,343	36.8%
Rendering of services	12,449	0.5%	19,586	0.7%
Total revenue	2,457,541	100.0%	2,835,129	100.0%

The decrease in retail sales, sales to franchisees and rendering of services was mainly due to the macro policy and the declined demand in the household appliances consumer market. During the year, 45 self-operated stores of the Group which already operated in 2011 accounted for 83.3% of the total number of the self-operated stores in the year.

The following table sets out the Group's revenue derived from sales of merchandise through its retail and bulk distribution operations by product categories during the year:

	2012 RMB'000		2011 RMB'000	
Air-conditioners	1,462,463	59.8%	1,561,737	55.5%
TV sets	549,335	22.5%	621,872	22.1%
Refrigerators	174,248	7.1%	215,239	7.6%
Washing machines	112,805	4.6%	164,748	5.9%
Others	146,241	6.0%	251,947	8.9%
Total revenue	2,445,092	100.0%	2,815,543	100.0%

The percentage of air-conditioner sales increased in 2012, which was mainly attributable to the expansion of distribution network for such products. The percentage of TV sets sales increased, which was mainly attributable to an increase in sales of new products, such as smart TVs and 3D TVs. The drive of replacement and upgrade stimulated demand and increased the capacity of such a portion of TV market.

Cost of sales

Cost of sales decreased by approximately 13.2% from RMB2,473.7 million for 2011 to RMB2,147.1 million for 2012, primarily due to a decrease in sales volume. The rate of decrease in cost of sales was slightly lower than that of the sales decrease of the Group.

Gross profit

As a result of the above principal factors, the Group's gross profit decreased by approximately 14.1% from RMB361.4 million for 2011 to RMB310.4 million for 2012.

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

	2012	2011
Retail	18.5%	17.8%
Bulk distribution	9.4%	9.3%
Rendering of services	43.6%	39.5%
Overall	12.6%	12.8%

During the year, the gross profit margin of the Group slightly decreased, mainly due to the decrease in the percentage of retail sales and the gross profit margin of retail sales is higher than that of bulk distribution.

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

	2012	2011
Air-conditioners	9.4%	9.2%
TV sets	13.9%	14.3%
Refrigerators	15.5%	16.3%
Washing machines	14.8%	17.5%
Others	32.9%	22.6%
Overall	12.5%	12.6%

The gross profit margin of other products increased, which was primarily due to strict control on the low-margin products and introduction of new categories with higher margin.

Other income

During the year, the Group's other income amounted to approximately RMB15.2 million, representing a slight decrease from approximately RMB18.0 million for 2011.

Other losses

During the year, the Group's other losses amounted to approximately RMB10.6 million, representing a slight increase from approximately RMB10.3 million for 2011.

Selling and marketing expenses

During the year, the Group's total selling and marketing expenses amounted to approximately RMB165.6 million, representing a decrease from approximately RMB172.8 million for 2011.

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

	2012	2011
Employee benefit expenses	1.20%	1.09%
Service charges	0.19%	0.53%
Operating lease expenses in respect of buildings and warehouses	2.38%	1.66%
Promotion and advertising expenses	1.11%	1.00%
Depreciation of property, plant and equipment	0.72%	0.73%
Utilities and telephone expenses	0.38%	0.31%
Transportation expenses	0.45%	0.48%
Travelling expenses	0.09%	0.11%
Others	0.22%	0.17%
Total selling and marketing expenses	6.74%	6.08%

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

Administrative expenses

During the year, the Group's total administrative expenses amounted to approximately RMB374.0 million, increasing from RMB142.6 million for 2011, which was mainly due to the increase of provision for impairment on receivables, impairment loss against goodwill and intangible assets, as well as employee benefit expenses.

The following table sets out a summary for administrative expenses:

	2012 RMB'000	2011 RMB'000
Employee benefit expenses	46,370	35,971
Pre-IPO share option expenses	4,488	10,553
Operating lease expenses in respect of buildings	6,988	10,403
Amortization and depreciation	6,832	6,564
Utilities and telephone expenses	2,583	2,085
Travelling expenses	2,412	4,009
Auditors' remuneration	3,092	3,825
Consulting expenses	1,888	3,108
Provision for impairment on receivables	236,247	32,910
Impairment loss against goodwill and intangible assets	30,005	2,500
Others	33,049	30,675
Total administrative expenses	373,954	142,603

The increase of provision for impairment on receivables was mainly due to making of certain provision for receivables from suppliers after taking into account of increased operating pressure of upstream companies in the industry in 2012. The slow settlement of rebates receivable had led to a worsen ageing and a higher provision for impairment accordingly.

The increase of impairment loss against goodwill and intangible asset was due to the performance of the acquired business, which primarily sells a Japan branded household appliances, did not meet the expectation after the earthquake in Japan last year and the macro economic crisis in the whole world as well as the political negative impact from Diaoyu Island during the year.

Finance costs – net

During the year, the Group's net finance costs was approximately RMB46.8 million, compared to approximately RMB12.6 million of net finance costs for 2011, which was mainly due to the fact that much more borrowings were incurred in 2012 compared with 2011. In addition, on 20 August 2012, Yangzhou Huiyin Household Appliance (Group) Co., Ltd, a wholly owned subsidiary of the Company, completed the issuance of the Medium-Term Notes in the PRC in the aggregate principal amount of RMB390 million with a term of three years.

(Loss)/profit before income tax

During the year, the loss before income tax of the Group was approximately RMB271.3 million, while there was profit before income tax of approximately RMB41.1 million for 2011.

(Loss)/profit attributable to equity holders of the Company

The loss attributable to equity holders of the Group for 2012 was approximately RMB226.7 million, while there was profit attributable to equity holders of approximately RMB15.5 million for 2011.

Prepayments for land use rights

As announced by the Company on 28 January 2011, a wholly-owned subsidiary of the Company succeeded in the bid to acquire a land parcel in Yangzhou. The prepayments for land use rights represented 50% of the total consideration. The remaining 50% amounting to RMB117.7 million is to be paid upon the transfer of the land parcel from Yangzhou Municipal Land Bureau after they have completed the land clearance. The remaining portion was paid in January 2013.

Cash and cash equivalents

As at 31 December 2012, the Group's cash and cash equivalents were approximately RMB75.2 million, representing a decrease of 39.2% from approximately RMB123.7 million as at 31 December 2011.

Inventories

As at 31 December 2012, the Group's inventories amounted to approximately RMB387.2 million, increasing slightly from approximately RMB382.7 million as at 31 December 2011.

Prepayments, deposits and other receivables

As at 31 December 2012, prepayments, deposits and other receivables of the Group amounted to approximately RMB911.1 million, decreasing from approximately RMB967.5 million as at 31 December 2011.

Trade and bills receivables

As at 31 December 2012, trade and bills receivables of the Group amounted to approximately RMB437.1 million, representing a significant increase from approximately RMB173.7 million as at 31 December 2011, which was mainly due to the increase of bills receivable.

Trade and bills payables

As at 31 December 2012, trade and bills payables of the Group amounted to approximately RMB570.4 million, representing a slight increase from approximately RMB547.2 million as at 31 December 2011.

Gearing ratio and the basis of calculation

As at 31 December 2012, gearing ratio of the Group was 59.7%, representing an increase from 35.1% as at 31 December 2011, which was mainly due to the significant increase of borrowing balance. The gearing ratio is equal to total borrowings divided by the sum of total equity and total borrowings.

Capital expenditure

During the year, capital expenditure of the Group amounted to approximately RMB12.3 million, decreasing from approximately RMB232.5 million in 2011. The decrease of the capital expenditure was mainly due to the prepayments for the land use rights, addition of logistics center construction costs and addition of distribution agreements arising from the acquisition of a subsidiary amounting to approximately RMB125.0 million, RMB44.2 million and RMB22.9 million respectively in 2011.

Cash flows

During the year, net cash outflow from operating activities of the Group amounted to approximately approximately RMB353.6 million as compared to approximately RMB201.9 million in 2011. Higher net cash outflow from operating activities in 2012 was mainly due to the impact of increase in trade and bills receivable.

Net cash outflow from investing activities amounted to approximately RMB0.5 million, as compared to approximately RMB227.0 million in 2011, which was mainly due to the prepayments for land use rights, amounting to approximately RMB125.0 million and acquisition of subsidiary amounting to approximately RMB46.6 million in 2011.

Net cash inflow from financing activities amounted to approximately RMB305.6 million, a decrease as compared to approximately RMB371.1 million in 2011, which was mainly due to the fact that there were more restricted bank deposits pledged for borrowings in 2012 as compared with 2011.

Capital structure

As at 31 December 2012, the Group's cash and bank balances were mainly held in Renminbi, and the Group's borrowings were denominated in Renminbi and in US dollar with floating or fixed interest rate.

As at 31 December 2012, equity attributable to shareholders of the Company amounted to approximately RMB843.0 million, compared to approximately RMB1,065.2 million as at 31 December 2011.

Liquidity and financial resources

During the year, the Group's working capital, capital expenditure and cash for investments were funded from cash on hand, bank borrowings, Medium-Term Notes and IPO proceeds. As at 31 December 2012, the interest-bearing borrowings of the Group amounted to RMB1,306.0 million, representing a substantial increase from RMB599.1 million as at 31 December 2011.

Pledging of assets

As at 31 December 2012, the Group's pledged bank deposits amounted to RMB805.8 million, representing an increase from RMB411.3 million as at 31 December 2011. Certain land use rights, buildings and investment properties with a total net book value of RMB173.4 million and bills receivable of RMB225.0 million had been pledged.

Contingent liabilities

As at 31 December 2012, the Group had no contingent liabilities which have not been properly accrued for.

Capital commitments

As at 31 December 2012, the Group had commitments for capital and property development expenditure amounted to approximately RMB117.7 million.

Foreign currencies and treasury policy

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

Final dividend

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2012 (2011: Nil).

USE OF FUNDS RAISED FROM INITIAL PUBLIC OFEERING

On 25 March 2010, the shares of our Company were successfully listed on the Main Board of 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 the IPO were approximately HK$458.9 million (equivalent to approximately RMB403.5 million).

As stated in the prospectus of the Company dated 12 March 2010, we intended to use approximately HK$156.5 million (equivalent to approximately RMB137.9 million) for expansion of our retail network, approximately HK$203.2 million (equivalent to approximately RMB178.3 million) for potential acquisitions of household 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 RMB4.4 million) for improving our existing information and management systems, and approximately HK$39.2 million (equivalent to approximately RMB34.5 million) as our general working capital.

As at 31 December 2012, our use of net proceeds raised from IPO was as follows:

	Net proceeds from IPO	
	Available to utilise (RMB million)	Utilised (up to 31 December 2012) (RMB million)
Expansion of retail network	137.9	137.9
Acquisitions of household appliances and electronics retail enterprises	178.3	68.3
Expansion of distribution and logistics centers in Jiangsu Province	48.4	48.4
Improving information and management systems	4.4	2.7
General working capital	34.5	34.5
	403.5	291.8

EMPLOYMENT AND REMUNERATION POLICY

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

HUMAN RESOURCES

As at 31 December 2012, the Group had 997 employees, down 27.5% from 1,375 at the end of 2011.

OUTLOOK

In 2013, the global economy will continue to be challenging. The household appliance industry and related businesses will continue to face significant operational pressure and the domestic household appliance industry will face the change in growth pattern and structural integration. The Group is constantly reinforcing its own advantages and taking the opportunities arising from industry consolidation, and is strategically poised to realize future growth. Overall, China's household electronic appliance manufacturing industry has completed its technical innovation as well as industry layout and the development of new technology will further drive the demand for new household electronic appliances. Benefiting from the implementation of the urbanization policy and the increasing per capita disposable income of rural residents, the demand in the third and fourth-tier household appliance markets significantly outgrows the first and second-tier markets in China and the overall household appliance market in the PRC still have great room for future development. The Company will continue its strategic positioning of becoming a leading enterprise in the third and fourth-tier household appliance markets in China, and will take advantage of its established network and supply chain to pursue greater business growth.

Due to the implementation of a new energy conservation subsidy policy for household appliances and the new urbanization construction policy, consumers demand for household appliances will hopefully maintain its growth momentum. It is expected that the energy conservation subsidy policy will start to impact the market in the second half of 2012 and the household appliance market will see positive growth in the next two to three years. On top of its continuous product mix optimization strategy, the Group will spare more efforts on store development and integration. In January 2013, the Group launched the Wenchang Boutique Store with an area of 3,000 square meters in Yangzhou. This further demonstrates the Group's influence on the regional markets in Jiangsu and Anhui Provinces.

In 2013, the Group will take innovative measures in three aspects—store distribution, brand building and human resources. In view of the urbanization, the Group will implement a strategy of "urbanize chain store development", which will enable the Group to expand its sales network in target markets to increase sales revenue, and to further increase its market share and solidify its market position through upgrading and integration of existing franchised stores. Meanwhile, the Group will actively implement its brand marketing strategy, enhance its brand image (including further optimization of the Group's integrated e-commerce platform covering various aspects such as procurement, sales and customer services) and improve the Group's overall asset management efficiency, so as to deepen the Group's relationship with suppliers and customers. In addition, the Group plans to strengthen corporate culture, internal management and upgrade the development of "Huiyin Business School" in order to train more retail talents and provide customers with professional services.

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 as well as to develop a strategic alliance with its suppliers, to maintain the Group's leading position in the target markets. The Group will further reinforce the awareness of the "Huiyin" brand in domestic household appliance market through retailing, agency sales, franchise and after-sales services combined with the development of e-commerce platform. Through these strategies, we believe that the Group can achieve sustainable business expansion and fully improve its operational efficiency and profitability, thus creating better returns for our shareholders and investors.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has made various amendments to the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on 1 April 2012.

The Company has applied the principles as set out in the CG Code. Throughout the year ended 31 December 2012, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and CG Code (effective from 1 April 2012) (to the extent that such provisions are applicable), except for the deviation from code provisions A.2.1 and A.6.7 which are explained in the relevant paragraphs of this report.

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

THE BOARD

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

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

Board Composition

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

Executive directors:

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

Mr. Mo Chihe, member of the Nomination Committee

Mr. Mao Shanxin

Mr. Wang Zhijin, Chief Financial Officer

Mr. Lu Chaolin, Vice General Manager

Independent non-executive directors:

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

Mr. Tam Chun Chung, Chairman of the Audit Committee

Mr. Tan Bien Kiat, Chairman of the Nomination Committee and member of the Audit Committee and the Remuneration Committee

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

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

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

Chairman and Chief Executive Officer

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

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

Appointment, Re-election and Removal of Directors

Each of the executive directors of the Company is engaged on a service agreement for a term of three years commencing on 5 March 2010 which was renewed on 5 March 2013 for a further three years for Mr. Cao Kuanping, Mr. Mo Chihe, Mr. Mao Shanxin and Mr. Wang Zhijin and commencing on 25 March 2011 for Mr. Lu Chaolin. The appointment may be terminated by not less than six months' prior written notice.

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election.

Each of Mr. Zhou Shuiwen and Mr. Tam Chun Chung, independent non-executive directors of the Company are appointed for a specific term of three years upon renewal of the appointment letters on 5 March 2013, and the appointment can be terminated in accordance with the terms of the appointment letters. Mr. Tan Bien Kiat, independent non-executive director, is appointed for a specific term of three years commencing on 22 July 2011 and the appointment can be terminated by either party by giving not less than three months' prior notice in writing to the other.

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

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

Continuous Professional Development of Directors

Every newly appointed director will receive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

All Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Records of training received by each existing director in 2012 is summarized below:

Directors	**Types of Training**
Cao Kuanping	C
Mo Chihe	B, C
Mao Shanxin	A, C
Wang Zhijin	B, C
Lu Chaolin	A, C
Zhou Shuiwen	C
Tam Chun Chung	B, C
Tan Bien Kiat	C

A Attending in-house briefing
B Attending seminar(s) and training(s)
C Reading materials relating to directors' duties and responsibilities

Board Committees and Corporate Governance Functions

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

All/the majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditor, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings in 2012 to review annual financial results and report for the year ended 31 December 2011 and interim financial results and report for the half year ended 30 June 2012 and to review significant issues on the financial reporting and compliance procedures, internal control and the independence, scope of work and appointment of external auditor.

The Audit Committee also met the external auditor twice without the presence of the Executive Directors.

The Audit Committee has in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2012 and the auditor's report thereon.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of Independent Non-executive Directors.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. External recruitment professionals might be engaged to carry out selection process when necessary.

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Records of Directors and Committee Members

The attendance record of each director at the Board and Board Committee meetings and the annual general meeting of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
Cao Kuanping	7/7	N/A	1/1	N/A	1/1
Mo Chihe	6/7	1/1	N/A	N/A	0/1
Mao Shanxin	7/7	N/A	N/A	N/A	0/1
Wang Zhijin	7/7	N/A	N/A	N/A	1/1
Lu Chaolin	7/7	N/A	N/A	N/A	0/1
Zhou Shuiwen	2/7	1/1	1/1	2/2	*1/1
Tam Chun Chung	6/7	N/A	N/A	2/2	1/1
Tan Bien Kiat	4/7	1/1	1/1	2/2	*1/1
Li Jung Hsing (resigned on 30 June 2012)	4/4	N/A	N/A	N/A	0/1

* attendance by delegates

Apart from regular Board meetings, the Chairman also held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of the other Executive Directors to discuss the business of the Company during the year.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

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

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

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company and of the Group for the year ended 31 December 2012.

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

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

Internal Controls

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

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

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

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 42 to 43.

For 2012, the remuneration of the Company's external auditor for the review of half-yearly interim financial information of the Group and audit of the annual consolidated financial statements of the Group was RMB2.825 million in aggregate. No non-audit services were provided by the external auditors in 2012.

COMPANY SECRETARY

Ms. Ngai Kit Fong of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary. Its primary contact person at the Company is Mr. Wang Zhijin, executive director and Chief Financial Officer of the Company. Ms. Ngai also confirmed that she has taken no less than 15 hours of relevant professional training during the year ended 31 December 2012.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The Board welcomes the view of shareholders and encourages them to attend general meetings to raise any concern they might have with the Board or the management directly. Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

Mr. Li Jung-Hsing, a non-executive director resigned on 30 June 2012, and Mr. Zhou Shuiwen and Mr. Tan Bien Kiat, independent non-executive directors, were unable to attend the 2012 annual general meeting held on 5 June 2012 as provided for in code provision A.6.7 due to other business engagements.

SHAREHOLDERS' RIGHTS

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

Extraordinary general meetings may be convened by the Board on the written requisition of any two or more shareholders (or one shareholder which is a recognised clearing house) holding not less than one-tenth of the paid up capital of the Company or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Article 12.3 of the Company's Articles of Association. The objects of the meeting must be stated in the requisition which must be signed by the Requisitionist(s) and deposited at the principal office of the Company in Hong Kong. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	No. 539 Wenchang Zhong Road, Yangzhou, Jiangsu Province, PRC For the attention of Mr. Wang Zhijin
Fax:	86-514-87370101
Email:	huiyin@pordahavas.com

Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) together with their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Any shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board of the Company in writing for the Board's consideration not less than 7 days prior to the date of a general meeting. Contact details of the Board are the same as set forth above in this section.

During the year, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Articles of Association for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the Company's Articles of Association and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hyjd.com) immediately after the relevant general meetings.

GOING CONCERN

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

Report of the Directors

The Directors have pleasure in presenting this report of the Directors and the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2012.

GROUP REORGANISATION

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

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 48.

The Company has not declared any interim dividend during the year. The Directors do not recommend any payment of final dividend in respect of the year.

The register of members of the Company will be closed from Wednesday, 5 June 2013, to Friday, 7 June 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 4 June 2013.

USE OF PROCEEDS FROM THE COMPANY'S LISTING

Details of the use of proceeds from the Company's Listing are set out on page 20 of this annual report.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 49 and in note 19 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law (2009 Revision) of the Cayman Islands ("Companies Law"), amounted to approximately RMB778.3 million. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set forth in note 9 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2012 are set out in note 25 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Li Jung-Hsing *(resigned on 30 June 2012)*

Independent Non-executive Directors

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

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

In accordance with article 16.18 of the Articles of Association of the Company, Mr. Cao Kuanping, Mr. Mo Chihe and Mr. Mao Shanxin shall retire at the forthcoming annual general meeting. All of the retiring directors, being eligible, will offer themselves for re-election at the annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors of the Company are set out in the "Directors' and Senior Management's Profile" section on pages 38 to 41.

CHANGES IN DIRECTORS' INFORMATION

Mr. Wang Zhijin, an executive Director, was appointed as a director of 上海靜健動康貿易有限公司 (Shanghai Jingjian Dongkang Trading Co., Ltd.*), a subsidiary, on 24 October 2012.

Mr. Lu Chaolin, an executive Director, ceased to be the legal representative of 鎮江滙澤電器銷售有限公司 (Zhenjiang Huize Household Appliance Sales Co., Ltd*) on 21 December 2012 and was appointed as the legal representative of 無錫滙銀家電銷售有限公司 (Wuxi Huiyin Household Appliance Sales Co., Ltd.*), another subsidiary, on 24 October 2012. Mr. Lu's annual salary has been revised to RMB300,000.

Mr. Tan Bien Kiat, an independent non-executive Director, has been appointed as a director of Lien Centre of Social Innovation.

Each of Mr. Cao Kuanping, Mr. Mo Chihe, Mr. Mao Shanxin and Mr. Wang Zhijin, executive directors, and Mr. Zhou Shuiwen and Mr. Tam Chun Chung, independent non-executive directors, whose service agreement/letter of appointment commenced on 5 March 2010 for a term/maximum term of three years, has renewed his service agreement/letter of appointment on 5 March 2013 for a further term of three years.

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.*

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2012 and up to the date of this report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As set out in note 39 to the audited consolidated financial statements in this annual report, during the year ended 31 December 2012, the Group had rental expenses paid to Mr. Cao Kuanping, the Chairman and an executive Director of the Company, amounting to RMB810,000. The relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules on an annual basis in respect of the Group's annual aggregate amount of such rental expenses do not exceed 0.1% and the continuing connected transaction will be exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules. Details of the aforesaid transaction have been disclosed in the section headed "Connected Transactions" of the prospectus of the Company dated 12 March 2010.

On 18 January 2013, Mr. Cao Kuanping as landlord entered into a tenancy agreement with Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. as tenant (the "Huiyin Tenancy Agreement") and a tenancy agreement with Yangzhou Huide Electronics Distribution Co., Ltd. as tenant (the "Huide Tenancy Agreement", together with the Huiyin Tenancy Agreement, the "Tenancy Agreements"). Mr. Cao, who is the Chairman and an executive Director of the Company, is a connected person of the Company, and accordingly, the Tenancy Agreements constitute continuing connected transactions of the Company under the Listing Rules. As the applicable percentage ratios on an annual basis calculated with reference to the aggregate annual rents payable by the Group to Mr. Cao under the Tenancy Agreements are more than 0.1% but less than 5% and the aggregate annual rents payable are more than HK$1,000,000, under Rule 14A.34 of the Listing Rules, the Tenancy Agreements are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules, the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35 (1) to 14A.35 (2) but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests or short positions of the Directors and chief executives of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which had to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Name of corporation	Nature of interest	Aggregate number of ordinary shares or underlying shares	Approximate percentage of interest in the corporation
Cao Kuanping	The Company	Interest of controlled corporation	257,803,625 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 in the shares of the Company ("Shares").

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

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 31 December 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	Nature of interest	Aggregate number of ordinary shares	Approximate percentage of interest in the corporation
China Ruike Investment & Development Co., Ltd.	The Company	Beneficial owner	257,803,625	24.59%
Pope Investments LLC	The Company	Beneficial owner	60,574,843	5.78%
Pope Asset Management, LLC	The Company	Interest of controlled corporation	60,574,843	5.78%
William P. Wells	The Company	Interest of controlled corporation	60,574,843	5.78%
The China Fund, Inc.	The Company	Beneficial owner	160,413,750	15.30%
Martin Currie Inc.	The Company	Interest of controlled corporation	160,413,750	15.30%
Martin Currie Limited	The Company	Interest of controlled corporation	160,413,750	15.30%

SHARE CAPITAL AND SHARE OPTION SCHEMES

Details of the movements in the share capital of the Company during the year are set out in note 18 to the consolidated financial statements.

On 5 March 2010, the Company adopted a share option scheme (the "Share Option Scheme") and a pre-IPO option scheme (the "Pre-IPO Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Share Option Scheme and the Pre-IPO Option Scheme include, without limitation, directors and employees of the Company, or any of its subsidiaries or associated companies. Up to 31 December 2012 and as at the date of this report, no share option has been granted or agreed to be granted to any person under the Share Option Scheme.

The following directors and senior management were granted the share options to subscribe for up to 50,000,000 Shares pursuant to the Pre-IPO Option Scheme (the "Pre-IPO Options"):

Name	As at 1 January 2012	Granted during the year	Exercised during the year	As at 31 December 2012	Approximate percentage of interest in the Company
	Number of Pre-IPO Options				
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 18 to the audited consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank loans and other borrowings as at 31 December 2012 are set out in note 22 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 14.5% of the Group's total revenue and sales to the largest customer accounted for approximately 4.7% of the Group's total revenue for year 2012. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 74.4% of the Group's total purchases and purchases from the largest supplier accounted for approximately 37.0% of the Group's total purchases for year 2012.

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

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in note 30 to the consolidated financial statements.

PUBLIC FLOAT

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

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 in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2012 and the auditor's report thereon.

AUDITOR

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

On behalf of the Board

Cao Kuanping
Chairman

Hong Kong, 22 March 2013

Directors' and Senior Management's Profile

EXECUTIVE DIRECTORS

Mr. Cao Kuanping (曹寬平先生), aged 50, founder of our Group, Chairman, executive Director and Chief Executive Officer of our Company, is responsible for our overall sales, marketing, development and strategic planning. Mr. Cao has been a Director since 5 February 2008. He is also a member of the Remuneration Committee. He is the legal representative of our various Group companies. Mr. Cao has extensive experience in the home appliances and consumer electronic products industry of close to 18 years. Prior to the establishment of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) in 2002, Mr. Cao was the General Manager of both 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) and 揚州市廣陵區滙銀貿易有限公司 (Yangzhou Guangling District Huiyin Trading Co., Ltd.*), both of which were involved in the business of home appliances. Mr. Cao has been a director of China Ruika Investment & Development Co., Ltd. since April 2008, an investment holding company wholly owned by him. In 2009, Mr. Cao obtained his executive MBA under the Tsinghua Executive MBA Program which is a part-time programme launched by Tsinghua University.

Mr. Mo Chihe (莫持河先生), aged 41, executive Director of our Company since 3 April 2008, is responsible for treasury management, cash management, and investment project. He is also a member of the Nomination Committee. He also works together with our chief financial officer on certain accounting aspects of our Group. Mr. Mo has been with us since the establishment of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) in May 2002. Mr. Mo is also a director of China Yinrui (HK) Investment Holding Company Limited and 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*). He has close to 13 years of experience in home appliances and consumer electronic products industry and in financial management. Mr. Mo was employed by 揚州造紙廠 (Yangzhou Paper Production Factory*) between 1995 and 1998 during which he obtained the qualification of corporate accountant ((企業)會計師) approved by Ministry of Personnel of the PRC (中華人民共和國人事部) and conferred by Ministry of Finance of the PRC (中華人民共和國財政部) in May 1997. He joined 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) as the financial manager in April 1999. Mr. Mo obtained a high diploma in planning and statistics of economic trading (經濟貿易系計劃與統計專業專科) from 江蘇農學院 (Jiangsu Agricultural College*) (currently known as 揚州大學農學院 (Agricultural College of Yangzhou University*)) in 1992.

Mr. Mao Shanxin (茅善新先生), aged 46, executive Director of our Company since 3 April 2008, is responsible for overall supervision and management of our franchising operation. Mr. Mao joined our Group since inception. Mr. Mao was responsible for overseeing the operation of our warehouse and distribution department and after-sales services department, and was a manager of our bulk distribution business, audit manager, and the manager of our head office. Mr. Mao is also a director of China Yinrui (HK) Investment Holding Company Limited. Prior to joining us, Mr. Mao was employed by 廣陵區百貨公司 (Guangling District Department Store*) as a salesman between 1987 and 1995. Mr. Mao completed 現代企業CEO 項目管理高級研修班 (Advanced Training Course of Project Management for CEO of Contemporary Enterprises*), a part-time course launched by 清華大學 (Tsinghua University*) in 2003. He completed the studying of 工商管理 (MBA) 核心課程班 (the Core Course of Business Administration (MBA) *) which is a part-time course launched by 南京大學 (Nanjing University*) in 2009. Mr. Mao Shanxin is the brother-in-law of Mr. Cao Kuanping, our Chairman.

Mr. Wang Zhijin (王志瑾先生), aged 36, executive Director of our Company since 5 March 2010, is responsible for the overall financial management and investors' relationship management. Mr. Wang joined our Group as the chief financial officer of our Company in July 2008. Mr. Wang was appointed as a director of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) and China Yinrui (HK) Investment Holding Company Limited, both are wholly owned subsidiaries of the Company, on 6 April 2010 and 6 May 2010 respectively. He was appointed as a director of 上海靜健動康貿易有限公司 (Shanghai Jingjian Dongkang Trading Co., Ltd.*), a subsidiary, on 24 October 2012. Mr. Wang is a member of 中國註冊會計師協會 (The Chinese Institute of Certified Public Accountants*). He has over 14 years experience in finance and accounting. Mr. Wang was employed by PricewaterhouseCoopers as a junior auditor in 1998, and was subsequently promoted to audit manager. Prior to joining us in 2008, Mr. Wang was appointed in December 2006 as chief financial officer and assistant to the chairman of directors of Kingdom Holdings Limited (stock code: 528), which is a company listed on the Main Board of the Stock Exchange. Mr. Wang obtained his bachelor degree in accounting from 上海財經大學 (Shanghai University of Finance and Economics*) in June 1998.

Mr. Lu Chaolin (路朝林先生), aged 37, has been appointed as an executive Director of our Company with effect from 25 March 2011. Mr. Lu, currently a vice general manager of our Company, is in charge of the overall management of the Group's corporate clients. He joined the Company's predecessor, 揚州市廣陵區滙銀交家電批發站 (Yangzhou Huiyin Guangling District Jiaojiadian Wholesale Station*) as deputy general manager in 1999 and 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) as deputy general manager since its establishment in May 2002. Mr. Lu has been the legal representative of 無錫滙銀家電銷售有限公司 (Wuxi Huiyin Household Appliances Sales Co., Ltd.*), a subsidiary, since 24 October 2012. Mr. Lu was appointed as a director of 揚州滙銀家電有限公司 (Yangzhou Huiyin Household Appliance Co., Ltd.*) and China Yinrui (HK) Investment Holding Company Limited, both are wholly owned subsidiaries of the Company, on 6 April 2010 and 6 May 2010 respectively. Mr. Lu was previously the legal representative of 揚州恒信空調銷售有限公司 (Yangzhou Hengxin Air-conditioner Sales Co., Ltd.*), 揚州滙德電器營銷有限公司 (Yangzhou Huide Electronics Distribution Co., Ltd.*) and 鎮江滙澤電器銷售有限公司 (Zhenjiang Huize Household Appliance Sales Co., Ltd.*). He attended and completed a 384-hour 高級工商管理總裁研修班 (Training Course of Business Administration and Management of Chief Executives*) launched by 清華大學繼續教育學院 (the School of Continuing Education of Tsinghua University*), and comprised 160-hour physical attendance study and 224-hour long distance study. He also completed a nine-month MBA Core Course, Executive Development Programs launched by 南京大學 (Nanjing University*) in September 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhou Shuiwen (周水文先生), aged 46, was appointed as an independent non-executive Director of our Company since 5 March 2010. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. He joined 上海永宣創業投資管理有限公司 (Shanghai NewMargins Growth Investment Management Co., Ltd.*, formerly known as 上海聯創投資管理有限公司 (Shanghai Lianchuang Investment Management Co., Ltd.*)) ("Shanghai NewMargins") in 1999, and is currently one of the partners of Shanghai NewMargins. Mr. Zhou is a director of 珠海歐比特控制工程股份有限公司 (Zhuhai Orbita Control Engineering Co., Ltd.*) (stock code: 300053), which is a company listed on Shenzhen Stock Exchange, since March 2008. He was a director of 鄭州煤礦機械集團股份有限公司 (Zhengzhou Coal Mining Machinery Group., Ltd.*) (stock code: 601717), which is a company listed on Shanghai Stock Exchange, between December 2008 and March 2012. He was also appointed as a supervisor of 江蘇聯環藥業股份有限公司 (Jiangsu Lianhuan Pharmaceutical Joint Stock Co., Ltd.*) (stock code: 600513), which is a company listed on Shanghai Stock Exchange, and 海南海藥股份有限公司 (Hainan Haiyao Pharmaceutical Joint Stock Co., Ltd.*) (stock code: 000566), which is a company listed on Shenzhen Stock Exchange between May 2006 and May 2009, and between May 2004 and May 2007, respectively. Mr. Zhou obtained his bachelor degree of engineering in bioengineering from 上海科學技術大學 (Shanghai University of Science and Technology, currently known as 上海大學 (Shanghai University*)) in 1989.

Mr. Tam Chun Chung (譚振忠先生), aged 40, was appointed as an independent non-executive Director of our Company on 5 March 2010. He is also the chairman of the Audit Committee. Mr. Tam has more than 17 years of experience in the accounting and audit field. He has been a joint company secretary of 中國中鐵股份有限公司 (China Railway Group Limited*) (stock code: 390), which is a company listed on the Main Board of the Stock Exchange, since November 2007. Prior to joining 中國中鐵股份有限公司 (China Railway Group Limited*), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (stock code: 549), which is a company listed on the Main Board of the Stock Exchange, from September 2005 to November 2007. Between 2000 and 2005, he worked in the finance department in China Motion Telecom International Limited (stock code: 989), which is a company listed on the Main Board of the Stock Exchange, as an assistant manager, and was subsequently promoted to the position as a senior manager. From 1994 to 2000, Mr. Tam was employed by KPMG and was subsequently promoted to the position as an assistant manager. He has been a member of the Hong Kong Institute of Certified Public Accountants since December 1997 and a fellow of the Chartered Association of Certified Accountants since November 2002. Mr. Tam graduated from the Chinese University of Hong Kong in December 1994 with degree of bachelor of business administration.

Mr. Tan Bien Kiat (陳敏潔先生), aged 57, has been appointed as an independent non-executive Director, the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee of the Board with effect from 22 July 2011. Mr. Tan has 16 years of experience in private equity and fund management and is the Founder and Managing Director of Titan Capital, a private equity investment firm. Mr. Tan was also the Managing Director of TPG Newbridge, the Asian arm of TPG Capital, a leading global private equity firm with US$40 billion of capital under management and was responsible to start and run their operations in South and South-East Asia, and Australia from 1997 to 2003. Prior to that, from 1994 to 1997, he was the Chief Executive of a major South East Asia conglomerate which controlled five public-listed companies. His career included senior management stints with Booz Allen and A.T. Kearney, both leading American strategy consulting firms, where he was instrumental in pioneering their Asian franchisees. Mr. Tan holds an MBA and MS from Columbia University in New York City. He is an international trustee of International House of New York, President of Social Venture Partners, a philanthropic organization, and was on the formerly called financial & investment committee of the Board of Trustees of Singapore University of Technology & Design, a joint venture with MIT. Such committee was subsequently split into two committees: the Finance Committee and the Investment Committee. Mr. Tan was elected as and is now a member of the Finance Committee. Mr. Tan is a director of Lien Centre of Social Innovation.

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

SENIOR MANAGEMENT

Mr. Guo Guangzhong (郭廣忠先生), 35, is the assistant to the general manager of the Company, and is responsible for marketing and management of the Group's self-operated stores, and the overall management and implementation of the Group's businesses under the Rural Appliance Rebate Program and the Change of the Old for New Program. He joined the Group in December 2002. Mr. Guo obtained a high diploma in civil engineering and architecture from 南京建築工程學院 (Nanjing Institute of Architectural and Civil Engineering*, which was merged with other institutes to form 南京工業大學 (Nanjing University of Technology*)) in 2000. In 2006, he completed a 120-hour course of 零售賣場管理設計高級研修班 (the Advanced Level on Management and Design of Retail Premises*) launched by 清華大學美術學院培訓中心 (the Training Centre of the Academy of Fine Arts of Tsinghua University*).

Ms. Zhang Yun (張雲女士), 33, head of the Group's after-sales service centers (售後服務中心總監), is responsible for the overall management of the Group's after-sales service centers. She has been engaged in the home appliances and consumer electronic products distribution business for over six years. Prior to joining the Group in 2003, Ms. Zhang was employed by 揚州蘇寧電器有限公司 (Yangzhou Suning Appliance Co., Ltd.*) to deal with after-sales works and was responsible for installation and maintenance works in Yangzhou between 2003 and 2004.

Mr. Gao Yuan (高源), 39, general manager of Hengxin Air-Conditioner, is responsible for the overall management of Hengxin Air-Conditioner. Mr. Gao has close to 11 years of experience in the home appliances and consumer electronic products industry. Prior to joining our predecessor, Yangzhou Jiaojiadian, in 2000, Mr. Gao was employed by 揚州百信電器有限公司 (Yangzhou Baixin Electronics Co., Ltd*) and was responsible for sales of a specified brand of air conditioners in Yangzhou and Taizhou between March 1999 and May 2000.

Mr. Sun Qingxiang (孫清翔), 37, general manager of Huide Electronics, is responsible for the overall management of Yangzhou Huide. Mr. Sun joined our predecessor, Yangzhou Jiaojiadian, in 2001 and Yangzhou Huiyin since its establishment as business manager responsible for the development of and distribution in the network of towns and villages. He has close to 10 years of experience in the home appliances and consumer electronic products industry.

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

Independent Auditor's Report

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

We have audited the consolidated financial statements of Huiyin Household Appliances (Holdings) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 117, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2013

Consolidated Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	17,355	17,792
Prepayments for land use rights	8	125,047	125,047
Property, plant and equipment	9	192,771	186,609
Investment properties	10	6,085	23,456
Intangible assets	11	39,363	73,355
Deferred income tax assets	12	92,288	30,161
		472,909	456,420
Current assets			
Inventories	13	387,160	382,661
Trade and bills receivables	14	437,130	173,653
Prepayments, deposits and other receivables	15	911,088	967,474
Restricted bank deposits	16	805,847	411,312
Cash and cash equivalents	17	75,198	123,715
		2,616,423	2,058,815
Total assets		3,089,332	2,515,235
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	7,162	7,162
Reserves	19	835,853	1,058,050
		843,015	1,065,212
Non-controlling interests in equity		40,326	40,938
Total equity		883,341	1,106,150

	Note	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	479,078	—
Deferred income tax liabilities	12	211	5,370
Other non-current liabilities	24	—	8,211
		479,289	13,581
Current liabilities			
Trade and bills payables	20	570,410	547,246
Accruals and other payables	21	213,261	137,321
Borrowings	22	826,886	599,089
Derivative financial instruments	23	1,007	—
Current income tax liabilities		63,479	70,288
Other current liabilities	24	51,659	41,560
		1,726,702	1,395,504
Total liabilities		2,205,991	1,409,085
Total equity and liabilities		3,089,332	2,515,235
Net current assets		889,721	663,311
Total assets less current liabilities		1,362,630	1,119,731

The notes on pages 51 to 117 are an integral part of these financial statements.

Cao Kuanping
Director

Wang Zhijin
Director

Balance Sheet of the Company

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Investments in and amounts due from subsidiaries	25	898,036	910,263
Current assets			
Prepayments, deposits and other receivables	15	314,275	140
Dividends receivable		12,740	12,738
Cash and cash equivalents		641	73
		327,656	12,951
Total assets		1,225,692	923,214
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	7,162	7,162
Share premium	19	827,784	827,784
Other reserves	19	30,883	26,393
Accumulated losses	19	(80,360)	(64,475)
Total equity		785,469	796,864
LIABILITIES			
Non-current liabilities			
Borrowings	22	100,568	—
Current liabilities			
Accruals and other payables	21	26,009	26,670
Borrowings	22	313,646	99,680
		339,655	126,350
Total liabilities		440,223	126,350
Total equity and liabilities		1,225,692	923,214
Net current liabilities		(11,999)	(113,399)
Total assets less current liabilities		886,037	796,864

The notes on pages 51 to 117 are an integral part of these financial statements.

Cao Kuanping
Director

Wang Zhijin
Director

Consolidated Income Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	26	2,457,541	2,835,129
Cost of sales	29	(2,147,102)	(2,473,727)
Gross profit		310,439	361,402
Other income	27	15,199	17,952
Other losses – net	28	(10,646)	(10,342)
Selling and marketing expenses	29	(165,596)	(172,752)
Administrative expenses	29	(373,954)	(142,603)
Operating (loss) /profit		(224,558)	53,657
Finance income		16,904	9,195
Finance costs		(63,682)	(21,799)
Finance costs – net	32	(46,778)	(12,604)
(Loss)/profit before income tax		(271,336)	41,053
Income tax credit/ (expense)	33	44,337	(22,023)
(Loss)/profit for the year		(226,999)	19,030
Attributable to:			
– Equity holders of the Company		(226,687)	15,509
– Non-controlling interests		(312)	3,521
		(226,999)	19,030
(Loss)/earnings per share for (loss) /profit attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	34	(21.62)	1.48
– Diluted	34	(19.25)	1.40
Dividends	35	—	—

The notes on pages 51 to 117 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
(Loss)/profit for the year	(226,999)	19,030
Other comprehensive income or loss	—	—
Total comprehensive (loss) /income for the year	(226,999)	19,030
Attributable to:		
– Equity holders of the Company	(226,687)	15,509
– Non-controlling interests	(312)	3,521
	(226,999)	19,030

The notes on pages 51 to 117 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Attributable to equity holders of the Company							
		Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011		7,162	845,606	21,137	(73,077)	256,144	1,056,972	15,317	1,072,289
Comprehensive income									
Profit/Total comprehensive income for the year 2011		–	–	–	–	15,509	15,509	3,521	19,030
Contributions by and distributions to owners									
Appropriation to statutory reserves		–	–	6,870	–	(6,870)	–	–	–
Capital contribution from non-controlling interests		–	–	–	–	–	–	22,200	22,200
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	29	–	–	–	10,553	–	10,553	–	10,553
Balance at 31 December 2011		7,162	827,784	28,007	(62,524)	264,783	1,065,212	40,938	1,106,150
Balance at 1 January 2012		7,162	827,784	28,007	(62,524)	264,783	1,065,212	40,938	1,106,150
Comprehensive loss									
Loss/Total comprehensive loss for the year 2012		–	–	–	–	(226,687)	(226,687)	(312)	(226,999)
Contributions by and distributions to owners									
Liquidation of a subsidiary		–	–	–	–	–	–	(200)	(200)
Dividends paid by a subsidiary to non-controlling interests		–	–	–	–	–	–	(100)	(100)
Pre-IPO Option Scheme – value of employee services	29	–	–	–	4,490	–	4,490	–	4,490
Balance at 31 December 2012		7,162	827,784	28,007	(58,034)	38,096	843,015	40,326	883,341

The notes on pages 51 to 117 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities:			
Cash used in operations	36	(271,763)	(127,024)
Interest paid		(52,073)	(20,667)
Income tax paid		(29,758)	(54,215)
Net cash used in operating activities		(353,594)	(201,906)
Cash flows from investing activities:			
Acquisition of subsidiary, net of cash acquired		—	(46,627)
Purchase of property, plant and equipment		(18,985)	(61,996)
Prepayments for land use rights	8	—	(125,047)
Purchase of intangible assets	11	—	(12)
Proceeds from disposal of property, plant and equipment	36	2,667	417
Interest received		15,827	6,304
Net cash used in investing activities		(491)	(226,961)
Cash flows from financing activities:			
Special dividend paid by the Company		—	(275)
Final dividend paid by the Company		—	(17,822)
Proceeds from issuance of medium-term notes	22	390,000	—
Proceeds from bank borrowings	22	912,530	599,089
Repayments of bank borrowings	22	(599,089)	(50,000)
Restricted bank deposits pledged for bank borrowings and forward foreign exchange contracts	16	(397,588)	(182,015)
Capital contribution from non-controlling interests		—	22,200
Return of capital to non-controlling interests upon liquidation of a subsidiary		(200)	—
Dividend paid by a subsidiary to non-controlling interests		(100)	(100)
Net cash generated from financing activities		305,553	371,077
Decrease in cash and cash equivalents		(48,532)	(57,790)
Cash and cash equivalents at beginning of the year	17	123,715	181,632
Exchange differences on cash and cash equivalents		15	(127)
Cash and cash equivalents at end of the year	17	75,198	123,715

The notes on pages 51 to 117 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 February 2008 as an exempted company with limited liability under the Companies Law (2009 Revision as amended, supplemented or otherwise modified) of the Cayman Islands. The Company changed its name from China Yinrui Investment Holding Co., Ltd. to Huiyin Household Appliances (Holdings) Co., Ltd. on 8 December 2009. The address of its registered office has been changed from Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands to Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands since 3 December 2012.

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 (Group) Co., Ltd. ("Yangzhou Huiyin", formerly known as "Yangzhou Huiyin Household Appliance Co., Ltd.") 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 Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 March 2010.

2 BASIS OF PREPARATION

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) 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.

(b) The following are new/revised standards, amendments and interpretations to existing standards that have been issued and are relevant to the Group but they are not yet effective for the financial year beginning on 1 January 2012 and have not been early adopted by the Group:

- Amendment has been made to HKAS 1 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from the amendment is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. Amendment to HKAS 1 is effective for annual periods beginning on or after 1 July 2012.

- HKFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013.

- HKFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010 and revised in December 2011. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. HKFRS 9 is effective for annual periods beginning on or after 1 January 2015.

- HKFRS 10 'Consolidated Financial Statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. HKFRS 10 is effective for annual periods beginning on or after 1 January 2013. There will be no impact on the Group's consolidated financial statements as the new principle of control does not change the classification of the subsidiaries which are currently consolidated in the Group's consolidated financial statements.

- HKFRS 12 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. HKFRS 12 is effective for annual periods beginning on or after 1 January 2013.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) The following are new/revised standards, amendments and interpretations to existing standards that have been issued and are relevant to the Group but they are not yet effective for the financial year beginning on 1 January 2012 and have not been early adopted by the Group *(continued)*:

The Group will apply the new standards and amendment described above when they become effective. The Group is in the process of making an assessment on the impact of the new/revised standards, amendments and interpretations which are relevant to the Group's operations and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position.

3.1 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

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

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

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

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Consolidation *(continued)*

(a) Subsidiaries *(continued)*

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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

(b) Transactions with non-controlling interests on ownership of subsidiaries without loss of control

The Group applies a policy of treating transactions with non-controlling interests on ownership of subsidiaries without loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chairman and executive directors of the Company that makes strategic decisions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

3.4 Land use rights

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Property, plant and equipment

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

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

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

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

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

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

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

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

3.6 Investment properties

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Intangible assets

(a) Computer software

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

(b) Distribution agreement

Distribution agreement arising from the acquisition of a subsidiary in year 2011 is initially recognised at fair value. Distribution agreement has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of distribution agreement over the estimated useful lives of 10 years.

(c) Non-compete agreements

Non-compete agreements arising from the acquisition of business in year 2010 and 2011 are initially recognised at fair value. Non-compete agreements have definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of non-compete agreements over the estimated useful lives of 5 and 6 years respectively.

(d) Goodwill

Goodwill represents the excess of the sum of consideration transferred, the amount of the non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in ‘intangible assets’. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination. Goodwill is monitored at the operating segment level.

3.8 Impairment of investments in subsidiaries and non-financial assets

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

Investments in subsidiaries are also assessed for impairment when dividend is received (Note 3.1 (a)).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Derivative financial instruments

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

3.10 Inventories

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

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

3.11 Trade, bills and other receivables

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

3.12 Cash and cash equivalents

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

3.13 Share capital

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Trade, bills and other payables

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

3.15 Contingent consideration

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

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

3.16 Borrowings and borrowing costs

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Current and deferred income tax

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Employee benefits — pension obligations (defined contribution plan)

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

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

3.19 Share-based payments

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.20 Provision and contingent liability

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

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

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

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

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

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

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

3.21 Revenue recognition

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue recognition *(continued)*

(a) Sales of goods — bulk distribution

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

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

(b) Sales of goods — retail

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

(c) Rendering of services

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

(d) Interest income

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

(e) Franchise fee income

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue recognition *(continued)*

(f) Promotion income

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

(g) Rental income

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

(h) Dividend income

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

3.22 Government grants

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

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

3.23 Operating leases (as a lessee)

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

3.24 Dividend distribution

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

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Foreign exchange risk

The Group operates mainly in the PRC and is exposed to foreign exchange risk arising primarily from the US dollar ("US$") and the HK dollar ("HK$"). Foreign exchange risk arises from the bank borrowings denominated in US$.

Fluctuation of the exchange rates of functional currency against foreign currencies could affect the Group's results of operations. During the year of 2012, one of the PRC subsidiaries of the Group entered into forward contracts with outstanding amount of US$14,400,000 as at 31 December 2012 (Note 23) to minimise its exposure to US$ bank borrowings. Other than this, the Group has not entered into forward contracts to hedge its exposure to foreign exchange risk which mainly arise from US$ bank borrowings with a total amount of US$80,300,000 as at 31 December 2012. Given the general expectations about the strengthening of RMB, the Group believes that the foreign exchange risk its not significant.

As at 31 December 2012, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, post-tax loss of the Group for the year would have been RMB18,927,000 lower/higher (2011: post-tax profit would have been RMB6,100,000 higher/lower), mainly as a result of net foreign exchange gains/losses on translation of US$ denominated bank borrowings.

As at 31 December 2012, if forward rate of RMB had strengthened/weakened by 5% against US$ with all other variables held constant, post-tax loss of the Group for the year would have been RMB3,387,000 (2011: Nil) higher/lower, mainly as a result of fair value losses/gains on forward foreign exchange contracts.

(b) Cash flow and fair value interest rate risk

Other than bank deposits with stable interest rate (Notes 16 and 17), the Group has no other significant interest-bearing assets. Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates of RMB833,171,000 (2011: RMB599,089,000) expose the Group to cash flow interest rate risk, and such borrowings are denominated in the US$ and RMB. As at 31 December 2012, if interest rate on such borrowings had been 10 basis points lower/higher with all other variables held constant, the post-tax loss of the Group for the year would have been RMB625,000 lower/higher (2011: post-tax profit would have been RMB449,000 higher/lower) mainly as a result of lower/higher interest expense on borrowings with variable rates. Borrowings obtained at fixed rates of RMB472,793,000 (2011: Nil) exposed the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 22.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(c) Credit risk

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

(i) Deposits with bank

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

		As at 31 December	
	Rating (Note)	2012 RMB'000	2011 RMB'000
Five largest restricted bank deposits			
– Bank of China	A-1	264,939	149,319
– Bank of Communications	A-2	230,410	74,100
– Agricultural Bank of China	A-1+	103,203	71,894
– Citic Bank	N/A	66,500	24,700
– Bank of Nanjing	A-3	39,400	31,220
		704,452	351,233
Five largest cash and cash equivalents			
– Bank of Communications	A-2	19,459	29,458
– Everbright Bank	N/A	13,070	10,039
– Bank of China	A-1	8,466	8,073
– Citic Bank	N/A	6,904	12,916
– Agricultural Bank of China	A-1+	6,788	18,368
		54,687	78,854

Note:

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

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(ii) Receivables

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

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

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

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

The carrying amount of receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial risk factors *(continued)*

(d) 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	Between 1 to 2 years RMB'000	Between 2 to 3 years RMB'000
As at 31 December 2012					
Borrowings (Note 22)	122,496	390,744	313,646	100,568	390,000
Interest payments on borrowings (note)	7,613	4,134	27,704	26,332	24,570
Trade and bills payables (Note 20)	325,111	245,299	—	—	—
Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 21)	73,298	—	—	—	—
	528,518	640,177	341,350	126,900	414,570
As at 31 December 2011					
Borrowings (Note 22)	50,000	196,400	352,689	—	—
Interest payments on borrowings (note)	8,702	6,244	4,623	—	—
Trade and bills payables (Note 20)	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 21)	28,174	—	—	—	—
	406,042	430,724	357,312	—	—

Note:

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

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Capital risk management

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

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

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

The gearing ratios at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Total borrowings (Note 22)	1,305,964	599,089
Total equity	883,341	1,106,150
Total capital	2,189,305	1,705,239
Gearing ratio	59.65%	35.13%

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

4.3 Fair value estimation

The different levels in determining the fair value of derivatives and other financial instruments are defined 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 asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);

– Inputs for the asset or liability 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 24) are measured at fair value by level 3. Derivative financial instruments (Note 23) are measured at fair value by level 2.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.7. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates (Note 11).

An impairment charge of RMB11,663,000 (2011: RMB2,500,000) against goodwill arose in the the cash-generating unit ("CGU") of Nanjing Chaoming Technology Development Co., Ltd. ("Nanjing Chaoming") during the course of year 2012, resulting in the carrying amount of the CGU being written down and the goodwill fully impaired.

No impairment charge arose during the course of year 2012 for the CGU of Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd. ("Huainan Four Seas", formerly known as "Huainan City Four Seas Huiyin Household Appliances Co., Ltd."). If the budgeted discount rate used in the calculation for this CGU had been 2% higher than management's estimates (25% instead of 23%), the Group would have recognised an impairment of goodwill by RMB6,032,000 (2011: RMB2,182,000).

(b) Income taxes

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

As at 31 December 2012, the Group had deferred income tax assets in the amount of approximately RMB92,288,000 (2011: RMB30,161,000); and deferred income tax liabilities of approximately RMB211,000 (2011: RMB5,370,000). To the extent it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from impairment provision of inventories and receivables, temporary differences arising from depreciation, certain accrual items and unused tax losses. However the outcome of their actual utilisation may be different.

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) Net realisable value of inventories

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

(d) Estimated impairment of non-financial assets

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

An impairment charge on intangible assets of RMB18,342,000 (2011: Nil) arose in Nanjing Chaoming during the course of 2012, resulting in the carrying amount being written down to zero at the year end (2011: RMB20,634,000) (Note 11).

(e) Fair value of derivatives and other financial instruments

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

If the discount rate used in the calculation of the fair value on the Bonus Consideration of the contingent consideration liabilities (Note 24) had been 2% lower than management's estimate (21% instead of 23%), the carrying amount of the Bonus Consideration of the contingent consideration liabilities as at 31 December 2012 would be RMB10,238,000, and an additional charge of RMB139,000 would be recognised in the income statement.

On the other hand, the contingent consideration liabilities arising from Bonus Consideration with a carrying amount of RMB10,099,000 as at 31 December 2012 (Note 24) is subject to the final adjustment in the event that the payment conditions as stipulated in the co-operation agreement are not met.

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

The Group determines the fair value of its investment properties as at each balance sheet date for disclosure purposes based on a valuation performed by the management of the Group (2011: valuation performed by a professionally qualified valuer). The valuation is based on a discounted cash flow projection which involves making estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(g) Rebates from suppliers and provision for supplier rebates receivable

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

Provision for supplier rebates receivable is made if necessary taking into consideration of the credit quality of the suppliers, their financial position, past experience and other factors. Provision of RMB234,775,000 (2011: RMB33,401,000) for suppliers rebates receivable had been recognised in 'administrative expenses' during the year considering the increased operating pressure of suppliers in the industry since the second half year of 2011 (Note 15). The slow settlement of supplier rebates receivable had led to a worsen ageing and a higher provision for impairment accordingly in 2012.

6 SEGMENT INFORMATION

The chief operating decision-maker ("CODM"), being the chairman and executive 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 chairman and executive 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 segment results for the year ended 31 December 2012 are as follows:

Segment results	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Unallocated* RMB'000	Group RMB'000
Segment revenue	825,845	2,185,960	12,449	—	3,024,254
Inter-segment revenue	—	(566,713)	—	—	(566,713)
Revenue from external customers	825,845	1,619,247	12,449	—	2,457,541
Operating profit/ (loss)	(37,177)	(181,586)	4,440	(10,235)	(224,558)
Finance costs - net					(46,778)
Loss before income tax					(271,336)
Income tax credit					44,337
Loss for the year					(226,999)
Other segment items are as follows:					
Capital expenditure	6,364	5,977	—	—	12,341
Depreciation charge	9,081	10,950	59	—	20,090
Amortisation charge	2,635	1,789	—	—	4,424

6 SEGMENT INFORMATION *(continued)*

The segment results for the year ended 31 December 2011 are as follows:

Segment results	**Retail**	**Bulk distribution**	**All other segments**	**Unallocated***	**Group**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	1,080,486	2,567,329	19,586	—	3,667,401
Inter-segment revenue	—	(832,272)	—	—	(832,272)
Revenue from external customers	1,080,486	1,735,057	19,586	—	2,835,129
Operating profit/ (loss)	44,637	15,303	6,382	(12,665)	53,657
Finance costs - net					(12,604)
Profit before income tax					41,053
Income tax expense					(22,023)
Profit for the year					19,030
Other segment items are as follows:					
Capital expenditure	16,530	90,484	125,502	—	232,516
Depreciation charge	3,342	19,079	31	—	22,452
Amortisation charge	2,632	2,236	—	—	4,868

* Unallocated mainly represented the expenses incurred in the Company, such as Pre-IPO Option Scheme expenses, certain key management compensation and exchange gains/(losses) arising from the bank deposits denominated in foreign currencies.

6 SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2012 are as follows:

Segment assets and liabilities	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
Segment assets	308,612	2,542,757	139,818	2,991,187
Unallocated assets				98,145
Total assets				3,089,332
Segment liabilities	164,492	666,992	2,836	834,320
Unallocated liabilities				1,371,671
Total liabilities				2,205,991

Segment assets and liabilities as at 31 December 2011 are as follows:

Segment assets and liabilities	Retail RMB'000	Bulk distribution RMB'000	All other segments RMB'000	Group RMB'000
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 LAND USE RIGHTS

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Opening net book amount	17,792	18,228
Amortisation (Note 29)	(437)	(436)
Closing net book amount	17,355	17,792
Cost	19,590	19,590
Accumulated amortisation	(2,235)	(1,798)
Closing net book amount	17,355	17,792

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

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

As at 31 December 2012, land use rights with a net book amount of RMB12,302,000 together with certain buildings (Note 9) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's bank acceptance bills of RMB10,000,000 (Note 20) and bank borrowings of RMB38,000,000 (Note 22).

As at 31 December 2012, land use rights with a net book amount of RMB5,053,000 together with certain buildings (Note 9), investment properties (Note 10) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's medium-term notes of RMB378,510,000 (Note 22).

As at 31 December 2011, land use rights with a net book amount of RMB12,716,000 together with certain buildings (Note 9), investment properties (Note 10) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's bank acceptance bills of RMB72,700,000 (Note 20) and bank borrowings of RMB86,400,000 (Note 22).

8 PREPAYMENTS FOR LAND USE RIGHTS

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Prepayments for land use rights	**125,047**	125,047

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 year 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. In the year 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 be a real estate complex, including a large flagship retail store of the Group. The Group originally owned 70% of the equity interests in this subsidiary, and became its sole shareholder since March 2013.

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. In January 2013, the Group has paid the rest of the consideration and obtained the land use rights in February 2013.

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronics and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2011						
Cost	105,063	24,926	10,079	34,742	—	174,810
Accumulated depreciation	(9,959)	(6,568)	(3,556)	(14,188)	—	(34,271)
Net book amount	95,104	18,358	6,523	20,554	—	140,539
Year ended 31 December 2011						
Opening net book amount	95,104	18,358	6,523	20,554	—	140,539
Additions	18,975	4,881	1,863	17,967	25,267	68,953
Acquisition of a subsidiary	—	34	—	—	—	34
Disposals (Note 36)	—	(393)	(72)	—	—	(465)
Depreciation (Note 29)	(3,966)	(3,022)	(1,132)	(14,332)	—	(22,452)
Net book amount	110,113	19,858	7,182	24,189	25,267	186,609
At 31 December 2011						
Cost	124,038	29,107	11,728	48,757	25,267	238,897
Accumulated depreciation	(13,925)	(9,249)	(4,546)	(24,568)	—	(52,288)
Net book amount	110,113	19,858	7,182	24,189	25,267	186,609
Year ended 31 December 2012						
Opening net book amount	110,113	19,858	7,182	24,189	25,267	186,609
Additions	—	1,898	374	7,155	2,914	12,341
Disposals (Note 36)	—	(1,891)	(204)	(1,365)	—	(3,460)
Transfer upon completion of construction	28,181	—	—	—	(28,181)	—
Transfer from investment properties (Note 10)	16,638	—	—	—	—	16,638
Depreciation (Note 29)	(4,958)	(2,989)	(1,474)	(9,936)	—	(19,357)
Net book amount	149,974	16,876	5,878	20,043	—	192,771
At 31 December 2012						
Cost	171,871	23,435	11,717	48,332	—	255,355
Accumulated depreciation	(21,897)	(6,559)	(5,839)	(28,289)	—	(62,584)
Net book amount	149,974	16,876	5,878	20,043	—	192,771

9 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Selling and marketing expenses	17,680	20,756
Administrative expenses	1,677	1,696
	19,357	22,452

(b) As at 31 December 2012, buildings with a net book amount of RMB123,422,000 together with certain land use rights (Note 7) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's bank acceptance bills of RMB10,000,000 (Note 20) and bank borrowings of RMB38,000,000 (Note 22).

As at 31 December 2012, buildings with a net book amount of RMB26,552,000 together with certain land use rights (Note 7), investment properties (Note 10) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's medium-term notes of RMB378,510,000 (Note 22).

As at 31 December 2011, buildings with a net book amount of RMB52,180,000 together with certain land use rights (Note 7), investment properties (Note 10) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's bank acceptance bills of RMB72,700,000 (Note 20) and bank borrowings of RMB86,400,000 (Note 22).

(c) Construction in progress as at 31 December 2011 mainly comprised the multifunctional building under construction which was completed in 2012.

10 INVESTMENT PROPERTIES

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At 1 January	23,456	24,092
Transfer out to property, plant and equipment (Note 9)	(16,638)	—
Depreciation (Note 29)	(733)	(636)
Closing net book amount	6,085	23,456
Cost	7,146	26,796
Accumulated depreciation	(1,061)	(3,340)
Closing net book amount	6,085	23,456

Investment properties are located in Mainland China on leases of between 10 to 50 years.

The Group chooses the cost model to account for its investment properties and therefore the difference between the fair value and carrying amount of the investment properties and any changes in fair value are not accounted for in these financial statements. The carrying amount of the investment properties would have been RMB7,033,000 had they been stated at fair values as of 31 December 2012 (2011: RMB27,900,000). 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 31 December 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 value. Fair value was determined by discounted cash flow approach of the income method to value "open market value" for the existing use as a fully operational entity of the property interest in question.

As at 31 December 2012, the investment properties with a net book amount of RMB6,085,000 together with certain land use rights (Note 7), buildings (Note 9) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's medium-term notes of RMB378,510,000 (2011: Nil) (Note 22).

As at 31 December 2011, the investment properties with a net book amount of RMB23,456,000 together with certain land use rights (Note 7), buildings (Note 9) and restricted bank deposits (Note 16) had been pledged as collateral for the Group's bank acceptance bills of RMB72,700,000 and bank borrowings of RMB86,400,000 (Note 22).

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

11 INTANGIBLE ASSETS

	Goodwill RMB'000	Distribution agreement RMB'000	Non-compete agreements RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2011					
Cost	34,060	—	3,620	5,829	43,509
Accumulated amortisation	—	—	(121)	(2,219)	(2,340)
Net book amount	34,060	—	3,499	3,610	41,169
Year ended 31 December 2011					
Opening net book amount	34,060	—	3,499	3,610	41,169
Additions	—	—	—	12	12
Acquisition of a subsidiary	14,163	22,927	1,350	30	38,470
Amortisation (Note 29)	—	(2,293)	(949)	(554)	(3,796)
Impairment charge (Note 29)	(2,500)	—	—	—	(2,500)
Closing net book amount	45,723	20,634	3,900	3,098	73,355
At 31 December 2011					
Cost	48,223	22,927	4,970	5,871	81,991
Accumulated amortisation	—	(2,293)	(1,070)	(2,773)	(6,136)
Impairment	(2,500)	—	—	—	(2,500)
Net book amount	45,723	20,634	3,900	3,098	73,355
Year ended 31 December 2012					
Opening net book amount	45,723	20,634	3,900	3,098	73,355
Amortisation (Note 29)	—	(2,292)	(950)	(745)	(3,987)
Impairment charge (Note 29)	(11,663)	(18,342)	—	—	(30,005)
Closing net book amount	34,060	—	2,950	2,353	39,363
At 31 December 2012					
Cost	48,223	22,927	4,970	5,871	81,991
Accumulated amortisation	—	(4,585)	(2,020)	(3,518)	(10,123)
Impairment	(14,163)	(18,342)	—	—	(32,505)
Net book amount	34,060	—	2,950	2,353	39,363

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

11 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill

Goodwill is allocated to the Group's CGU identified according to operating segment. Goodwill of RMB14,163,000 is allocated to the CGU of Nanjing Chaoming and RMB34,060,000 is allocated to the CGU of Huainan Four Seas.

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

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

Impairment charge of RMB11,663,000 (2011: RMB2,500,000) on goodwill arose during the course of year 2012.

In year 2012, considering the actual business performance of Nanjing Chaoming since the acquisition and severe market environment, the management of the Group believes that Nanjing Chaoming's future performance under existing strategy will no longer meet management's expectation, either the value-in-use or fair value less costs to sell cannot recover the carrying amount of the goodwill as at 31 December 2012, therefore full impairment was provided.

The key assumptions used for fair value less costs to sell calculations of Nanjing Chaoming as at 31 December 2012 are as follows:

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

11 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill *(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 31 December 2012 are as follows:

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

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

	Year ended 31 December				After
	2012	**2013**	**2014**	**2015**	**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 year 2012 (2011: Nil).

Impairment charge for distribution agreement arose from the acquisition of Nanjing Chaoming

The distribution agreement arising from the acquisition of Nanjing Chaoming was initially determined at the fair value by applying income approach - multi-period excess earnings method and subject to annual amortisation over the beneficial period of 10 years. As described in the impairment test for goodwill arising from the acquisition of Nanjing Chaoming, the management of Group assessed the recoverable amount of the distribution agreement and concluded that there is no future economic benefits expected, therefore impairment charge of RMB18,342,000 (2011: Nil) was provided during the course of year 2012, and the carrying amount was reduced to zero as at 31 December 2012 accordingly.

12 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 Group does not have deferred income tax assets and liabilities that are offset against each other and accordingly they are all stated at gross amounts. As at the balance sheet date, the analysis of deferred income tax assets and liabilities are as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	15,719	11,060
– to be recovered after more than 12 months	76,569	19,101
	92,288	30,161
Deferred income tax liabilities		
– to be settled within 12 months	211	784
– to be settled after more than 12 months	—	4,586
	211	5,370

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
At beginning of the year	24,791	9,677
Acquisition of a subsidiary	—	(5,731)
Utilised upon remittance of earnings	—	1,722
Recognised in the consolidated income statement (Note 33)	67,286	19,123
At end of the year	92,077	24,791

The movement in deferred income tax assets and liabilities during the year is as follows:

12 DEFERRED INCOME TAX *(continued)*

Deferred income tax assets

	Tax losses RMB'000	Accrued volume discounts to the distributors and franchisees RMB'000	Accrued expenses RMB'000	Unrealised profits 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	7,437	200	1,893	1,735	8,836	(1,339)	18,762
At 31 December 2011	11,281	200	3,043	3,621	9,522	2,494	30,161
At 1 January 2012	11,281	200	3,043	3,621	9,522	2,494	30,161
Recognised in the consolidated income statement	(70)	2,329	35	(513)	60,538	(192)	62,127
At 31 December 2012	11,211	2,529	3,078	3,108	70,060	2,302	92,288

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
Utilised upon remittance of earnings	(1,722)	—	(1,722)
Recognised in the consolidated income statement	211	(572)	(361)
At 31 December 2011	211	5,159	5,370
At 1 January 2012	211	5,159	5,370
Recognised in the consolidated income statement	—	(5,159)	(5,159)
At 31 December 2012	211	—	211

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB13,122,000 (2011: RMB457,000) in respect of losses amounting to RMB53,360,000 (2011: RMB2,770,000) that can be carried forward to set off against future taxable income due to uncertainty in realisation.

13 INVENTORIES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Merchandise held for resale	395,855	385,149
Provision for obsolescence	(9,936)	(3,448)
	385,919	381,701
Low value consumables	1,241	960
Total	387,160	382,661

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Included in cost of sales		
– Carrying amount of merchandise sold	2,140,387	2,466,044
– Write-down of obsolete inventories (Note 29)	6,488	2,125
	2,146,875	2,468,169
Included in other losses		
– Inventory write-off caused by a fire accident (Note 28)	6,965	—
	2,153,840	2,468,169

As at 31 December 2012, no inventories had been pledged as collateral for any bank acceptance bills or bank borrowings (2011: Nil).

14 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Trade receivables	120,715	144,830
Less: Provision for impairment	(2,126)	(871)
Trade receivables, net	118,589	143,959
Bills receivable	318,541	29,694
Trade and bills receivables, net	437,130	173,653

The credit term granted to customers by the Group ranges 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 the balance sheet date is as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
0 — 30 days	54,569	59,825
31 — 90 days	51,749	65,240
91 — 365 days	11,175	18,894
1 year — 2 years	2,643	871
2 years — 3 years	579	—
Total	120,715	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.

14 TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2012, trade receivables of RMB2,126,000 (2011: RMB871,000) were past due, impaired and provided for. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
1 year — 2 years	1,547	871
2 years — 3 years	579	—
Total	2,126	871

As at 31 December 2012, trade receivables of RMB15,046,000 (2011: RMB21,226,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
31 — 90 days	2,775	2,332
91 — 365 days	11,175	18,894
1 year — 2 years	1,096	—
Total	15,046	21,226

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At beginning of the year	871	1,362
Accrual/(reversal) of provision for receivable impairment (Note 29)	1,255	(491)
At end of the year	2,126	871

Bills receivable do not contain impaired assets.

As at 31 December 2012, bills receivable with a carrying amount of RMB2,800,000 (2011: Nil) had been pledged as collateral for the Group's bank acceptance bills of RMB2,800,000 (2011: Nil) (Note 20).

As at 31 December 2012, bills receivable with a carrying amount of RMB222,240,000 (2011: Nil) were discounted to the bank with recourse, the proceeds of RMB218,728,000 (2011: Nil) received from the bank were recorded as "borrowings" as at 31 December 2012 accordingly (Note 22).

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(a) Group

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Advance payments to suppliers	426,482	418,884
Rebates receivable from suppliers, net of provision	405,925	473,572
Prepaid rentals	16,665	26,222
Deposits	11,888	13,276
Prepaid consulting fees	800	1,584
Other prepayments	675	1,440
Other receivables from third parties		
– Value added tax recoverable	39,987	27,397
– Interests receivable from banks	3,969	2,892
– Amount paid on behalf of a supplier	536	—
– Staff advances	2,282	1,131
– Others	1,879	1,076
	911,088	967,474

Provision of RMB234,775,000 (2011: RMB33,401,000) for supplier rebates receivable had been recognised during the year considering the increased operating pressure of suppliers in the industry since the second half year of 2011. The slow settlement of supplier rebates receivable had led to a worsen ageing and a higher provision for impairment accordingly in 2012.

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

(b) Company

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Other receivables	314,275	140

The other receivables as at 31 December 2012 mainly represent the amount receivable from a subsidiary, China Yinrui HK which is interest-free, unsecured and has no specific repayment terms.

The other receivables of the Company are mainly denominated in US$ and their carrying amounts approximate their fair values as at the balance sheet date.

16 RESTRICTED BANK DEPOSITS

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Restricted bank deposits	805,847	411,312

As at 31 December 2012, restricted bank deposits of RMB223,244,000 (2011: RMB195,480,000) had been pledged as collateral for the Group's bank acceptance bills of RMB508,009,000 (2011: RMB435,030,000) (Note 20).

As at 31 December 2012, restricted bank deposits of RMB3,000,000, together with certain land use rights (Note 7) and buildings (Note 9) with a total net book amount of RMB135,724,000 had been pledged as collateral for the Group's bank acceptance bills of RMB10,000,000 (Note 20) and bank borrowings of RMB38,000,000 (Note 22).

As at 31 December 2012, restricted bank deposits of RMB100,000,000, together with certain land use rights (Note 7), buildings (Note 9) and investment properties (Note 10) with a total net book amount of RMB37,690,000 had been pledged as collateral for the Group's medium-term notes of RMB378,510,000 (Note 22).

As at 31 December 2012, restricted bank deposits of RMB474,603,000 (2011: RMB182,015,000) had been pledged as collateral for the Group's bank borrowings of US$65,900,000, equivalent to RMB414,214,000, and RMB16,000,000 (2011: US$15,820,000, equivalent to RMB99,680,000, and RMB113,009,000) (Note 22).

As at 31 December 2012, restricted bank deposits of RMB5,000,000 had been pledged as collateral for the Group's forward foreign exchange contracts (Note 23).

As at 31 December 2011, restricted bank deposits of RMB2,500,000 had been pledged as collateral for the Group's bank acceptance bills of RMB4,500,000, together with a personal guarantee of RMB2,000,000 provided by a third party (Note 20).

As at 31 December 2011, restricted bank deposits of RMB31,317,000, together with certain land use rights (Note 7), buildings (Note 9) and investment properties (Note 10) with a total net book amount of RMB88,352,000 had been pledged as collateral for the Group's bank acceptance bills of RMB72,700,000 (Note 20) and bank borrowings of RMB86,400,000 (Note 22).

All restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair value as at the balance sheet date. The weighted average interest rate per annum on restricted bank deposits was 3.1% as at 31 December 2012 (2011: 3.4%).

17 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Cash on hand		
– denominated in RMB	435	520
Cash at bank		
– denominated in RMB	68,906	116,052
– denominated in HK$	82	1,773
– denominated in US$	5,775	5,370
	74,763	123,195
	75,198	123,715

As at 31 December 2012 and 2011, the effective interest rate per annum was as follows:

	As at 31 December	
	2012	2011
RMB	0.35%	0.50%
HK$	0.001%	0.001%
US$	0.001%	0.001%

18 SHARE CAPITAL

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

	Par value	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
			US$	RMB'000
Authorised:				
At 1 January 2011, 31 December 2011 and 31 December 2012	US$0.001	2,000,000,000	2,000,000	10,598
Issued and fully paid:				
At 1 January 2011, 31 December 2011 and 31 December 2012	US$0.001	1,048,342,290	1,048,342	7,162

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 31 December 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 31 December 2012.

19 RESERVES

(a) Group

	Share premium RMB'000 Note (a)	Statutory reserves RMB'000 Note (b)	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2011	845,606	21,137	(73,077)	256,144	1,049,810
Profit for the year 2011	—	—	—	15,509	15,509
Appropriation to statutory reserves	—	6,870	—	(6,870)	—
Pre-IPO Option Scheme					
– value of employee services	—	—	10,553	—	10,553
Final dividend for the year 2010	(17,822)	—	—	—	(17,822)
Balance at 31 December 2011	827,784	28,007	(62,524)	264,783	1,058,050
Loss for the year 2012	—	—	—	(226,687)	(226,687)
Pre-IPO Option Scheme					
– value of employee services	—	—	4,490	—	4,490
Balance at 31 December 2012	827,784	28,007	(58,034)	38,096	835,853

19 RESERVES *(continued)*

(b) Company

	Share premium RMB'000 Note (a)	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2011	845,606	15,840	(23,443)	838,003
Loss for the year 2011	—	—	(41,032)	(41,032)
Pre-IPO Option Scheme				
– value of employee services	—	10,553	—	10,553
Final dividend for the year 2010	(17,822)	—	—	(17,822)
Balance at 31 December 2011	827,784	26,393	(64,475)	789,702
Loss for the year 2012	—	—	(15,885)	(15,885)
Pre-IPO Option Scheme				
– value of employee services	—	4,490	—	4,490
Balance at 31 December 2012	827,784	30,883	(80,360)	778,307

Notes:

(a) Share premium

Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.

(b) Statutory reserves

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

20 TRADE AND BILLS PAYABLES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Trade payables	49,601	35,016
Bills payable	520,809	512,230
	570,410	547,246

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

Ageing analysis of trade payables as at the balance sheet date is as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000
0 — 30 days	25,996	13,622
31 — 90 days	13,375	9,223
91 — 365 days	6,837	10,994
1 year — 2 years	2,716	1,177
2 years —3 years	677	—
	49,601	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 31 December 2012, restricted bank deposits of RMB223,244,000 (2011: RMB195,480,000) had been pledged as collateral for the Group's bank acceptance bills of RMB508,009,000 (2011: RMB435,030,000) (Note 16).

As at 31 December 2012, restricted bank deposits of RMB3,000,000 (Note 16), together with certain land use rights (Note 7) and buildings (Note 9) with a total net book amount of RMB135,724,000 had been pledged as collateral for the Group's bank acceptance bills of RMB10,000,000 and bank borrowings of RMB38,000,000 (Note 22).

As at 31 December 2012, bills receivable with a carrying amount of RMB2,800,000 (2011: Nil) had been pledged as collateral for the Group's bank acceptance bills of RMB2,800,000 (2011: Nil) (Note 14).

As at 31 December 2011, restricted bank deposits of RMB2,500,000 had been pledged as collateral for the Group's bank acceptance bills of RMB4,500,000, together with a personal guarantee of RMB2,000,000 provided by a third party (Note 16).

As at 31 December 2011, restricted bank deposits of RMB31,317,000 (Note 16), together with certain land use rights (Note 7), buildings (Note 9) and investment properties (Note 10) with a total net book amount of RMB88,352,000 had been pledged as collateral for the Group's bank acceptance bills of RMB72,700,000 and bank borrowings of RMB86,400,000 (Note 22).

21 ACCRUALS AND OTHER PAYABLES

(a) Group

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Advances from customers	105,527	87,519
Salary and welfare payables	18,766	11,537
Accrued expenses	14,908	8,344
Payables for purchase of equipment	8,526	15,170
Value added tax and other tax payables	15,670	10,091
Accrued volume discounts to distributors	10,117	800
Advance from a third party, interest free	30,000	—
Deposits	3,955	1,126
Amount due to a director (Note 39 (d))	463	146
Others	5,329	2,588
Total	213,261	137,321

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

(b) Company

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Other payables to subsidiaries	23,994	25,983
Other payables to third parties	2,015	687
	26,009	26,670

The other payables to subsidiaries mainly represent the professional fees for the Listing of the Company paid by Yangzhou Huiyin on behalf of the Company.

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

22 BORROWINGS – GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Non-current				
Bank borrowings (a)	100,568	—	100,568	—
Medium-term notes (b)	378,510	—	—	—
	479,078	—	100,568	—
Current				
Bank borrowings (a)	826,886	599,089	313,646	99,680
	1,305,964	599,089	414,214	99,680

(a) Bank borrowings

At 31 December 2012, the Group's bank borrowings were repayable as follows:

	Group As at 31 December		Company As at 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within 1 year	826,886	599,089	313,646	99,680
Between 1 and 2 years	100,568	—	100,568	—
	927,454	599,089	414,214	99,680

As at 31 December 2012, restricted bank deposits of RMB3,000,000 (Note 16), together with certain land use rights (Note 7) and buildings (Note 9) with a total net book amount of RMB135,724,000 had been pledged as collateral for the Group's bank acceptance bills of RMB10,000,000 (Note 20) and bank borrowings of RMB38,000,000.

As at 31 December 2012, restricted bank deposits of RMB474,603,000 (2011: RMB182,015,000) (Note 16) had been pledged as collateral for the Group's bank borrowings of US$65,900,000, equivalent to RMB414,214,000, and RMB16,000,000 (2011: US$15,820,000, equivalent to RMB99,680,000, and RMB113,009,000).

As at 31 December 2012, bills receivable with a carrying amount of RMB222,240,000 (2011: Nil) (Note 14) were discounted to the bank with recourse, the proceeds of RMB218,728,000 (2011: Nil) received from the bank were recorded as "borrowings" as at 31 December 2012 accordingly.

As at 31 December 2012, bank borrowings amounting to RMB240,512,000 (2011: RMB300,000,000) were unsecured.

22 BORROWINGS – GROUP AND COMPANY *(continued)*

(a) Bank borrowings *(continued)*

As at 31 December 2011, restricted bank deposits of RMB31,317,000 (Note 16), together with certain land use rights (Note 7), buildings (Note 9) and investment properties (Note 10) with a total net book amount of RMB88,352,000 had been pledged as collateral for the Group's bank acceptance bills of RMB72,700,000 (Note 20) and bank borrowings of RMB86,400,000.

The exposure of the Group's bank borrowings to interest rate change and the contractual repricing dates at the end of the reporting period are as follows:

	Group As at 31 December		Company As at 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
6 months or less	833,171	579,089	319,932	99,680
6-12 months	94,283	20,000	94,282	—
	927,454	599,089	414,214	99,680

The carrying amount of non-current bank borrowings and current bank borrowings approximates their fair value at the balance sheet date.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Non-current				
– US dollar	100,568	—	100,568	—
Current				
– RMB	422,728	436,400	—	—
– US dollar	404,158	162,689	313,646	99,680
	826,886	599,089	313,646	99,680
	927,454	599,089	414,214	99,680

22 BORROWINGS – GROUP AND COMPANY *(continued)*

(a) Bank borrowings *(continued)*

As at 31 December 2012, the Group's bank borrowings with the carrying amounts of RMB833,171,000 (2011: RMB599,089,000) are of floating rates and bank borrowings with the carrying amounts of RMB94,283,000 (2011: Nil) are of fixed rates.

The weighted average effective interest rate of the Group's and Company's bank borrowings are as follows:

	Group As at 31 December		Company As at 31 December	
	2012	2011	**2012**	2011
Non-current	**2.11%**	—	**2.11%**	—
Current	**3.76%**	6.31%	**1.81%**	3.85%

(b) Medium-term notes

On 20 August 2012, the Group's wholly-owned PRC subsidiary Yangzhou Huiyin issued medium-term notes in the PRC in the aggregate principal amount of RMB390,000,000, at the interest rate of 6.3% per annum, and with a term of three years. The medium-term notes are listed and transferable on the inter-bank debenture market in the PRC.

At 31 December 2012, the Group's medium-term notes were repayable between 2 and 3 years.

As at 31 December 2012, restricted bank deposits of RMB100,000,000 (Note 16), together with certain land use rights (Note 7), buildings (Note 9) and investment properties (Note 10) with a total net book amount of RMB37,690,000 had been pledged as collateral for the medium-term notes.

74.36% of the proceeds from the issue of the medium-term 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 Hiuyin.

The effective interest rate of the medium-term notes was 7.56%.

23 DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments arise from the fair value losses on the forward foreign exchange contracts during the year. The notional principal amounts of the outstanding forward foreign exchange contracts as at 31 December 2012 were US$14,400,000, which are due for settlement within one year and are pledged by restricted bank deposits of RMB5,000,000 (Note 16).

24 CONTINGENT CONSIDERATION LIABILITIES

	Contingent consideration liabilities arising from business combination
	RMB'000
At 1 January 2012	
– Current portion	41,560
– Non-current portion	8,211
	49,771
Changes in fair values (Note 28)	1,888
At 31 December 2012	
- all are current	51,659

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 RMB14 million) times 6.5 minus RMB19.5 million (the "Consideration"), if the Net Operating Profit of Huainan Four Seas for the First Operating Year exceeds RMB5 million; meanwhile if the Net Operating Profit for the third year after the commencement of business of Huainan Four Seas exceeds RMB13 million and the aggregate Net Operating Profits for the first three years after the commencement of business of Huainan Four Seas exceeds RMB30 million, Yangzhou Huiyin shall pay the JV partner a bonus consideration of RMB12 million (the "Bonus Consideration"). Accordingly, the maximum amount of the contingent consideration payable to the JV partner is RMB83.5 million. The Consideration and the Bonus Consideration will be paid in cash or, if required by the JV partner, by way of issue and allotment of new ordinary shares of the Company (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 year ended 31 December 2012, there was an increase in fair values of RMB1,888,000 (2011: RMB11,111,000) (Note 28) recognised as losses in the consolidated income statement for the contingent consideration arrangement. As at 31 December 2012, the fair value of the contingent consideration liabilities of RMB51,659,000 (2011: RMB49,771,000, including current portion of RMB41,560,000 and non-current portion of RMB8,211,000) was estimated by applying the income approach.

The contingent consideration liabilities arising from Bonus Consideration is subject to the final adjustment in the event that the payment conditions as stipulated in the co-operation agreement are not met.

25 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Amounts due from a subsidiary, China Yinrui HK	462,706	474,933
Equity investments in China Yinrui HK, an unlisted entity, pursuant to the Reorganisation (Notes 1 and 2)	435,330	435,330
	898,036	910,263

The amounts due from China Yinrui HK as at 31 December 2012 and 2011 are interest-free, unsecured and have no specific repayment terms, which represent the capital contribution paid to indirectly held subsidiaries on behalf of China Yinrui HK. The Company's intention is that the amounts due from China Yinrui HK will only be recalled when the subsidiaries have surplus cash.

25 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES *(continued)*

As at 31 December 2012, the Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest hold As at 31 December 2012	2011	Principal activities	Note
Directly owned							
China Yinrui HK	Hong Kong 14 March 2008	Limited liability company	HK$1	100%	100%	Investment	
Indirectly owned							
Yangzhou Huiyin 揚州滙銀家電 (集團)有限公司 (formerly known as "揚州滙銀家電有限公司")	Yangzhou Jiangsu, PRC 27 May 2002	Foreign investment enterprise	US$ 120,000,000 and US$ 116,427,978.34	100%	100%	Bulk distribution sales and provision of after-sales services of household appliances	(ii)
Jiangsu Huiyin Electronics Chain-Stores Co., Ltd. 江蘇滙銀電器連鎖有限公司	Yangzhou Jiangsu, PRC 15 May 2006	Domestic enterprise	RMB62,500,000	100%	100%	Retail sales and provision of after-sales services of household appliances	
Changzhou Keyi Air-Conditioner Sales Co., Ltd. ("Changzhou Keyi") 常州可意空調銷售有限公司	Changzhou Jiangsu, PRC 26 August 2003	Domestic enterprise	RMB5,000,000	90%	90%	Bulk distribution sales of Gree air-conditioners	
Yangzhou Huiyin Yuankun Professional Electronics Sales Co., Ltd. 揚州滙銀元坤專業電器銷售有限公司	Yangzhou Jiangsu, PRC 8 January 2008	Domestic enterprise	RMB5,000,000	100%	100%	Bulk distribution sales of Daikin air-conditioners	
Yangzhou Huihou Electronics Sales Co., Ltd. 揚州滙厚電器銷售有限公司	Yangzhou Jiangsu, PRC 23 August 2004	Domestic enterprise	RMB5,000,000	100%	100%	Bulk distribution sales of household appliances	
Yangzhou Hengxin Air-conditioner Sales Co., Ltd. 揚州恒信空調銷售有限公司	Yangzhou Jiangsu, PRC 27 August 2004	Domestic enterprise	RMB25,000,000	100%	100%	Bulk distribution sales of Gree air-conditioners	
Yangzhou Huide Electronics Distribution Co., Ltd. 揚州滙德電器營銷有限公司	Yangzhou Jiangsu, PRC 23 October 2006	Domestic enterprise	RMB25,000,000	100%	100%	Bulk distribution sales of Midea air-conditioners	
Yangzhou Hanshang Huiyin Household Appliance Co., Ltd. 揚州邗上滙銀家電有限公司	Yangzhou Jiangsu, PRC 22 June 2009	Domestic enterprise	RMB10,000,000	100%	100%	Retail sales of household appliances	(iv)
Wuhu Yinrui Household Appliance Sales Co., Ltd. 蕪湖市銀瑞家電銷售有限公司	Wuhu Anhui, PRC 11 March 2009	Domestic enterprise	RMB2,000,000	100%	100%	Bulk distribution sales of Daikin air-conditioners	(iv)
Ningguo Huiyin Household Appliance Sales Co., Ltd. 寧國滙銀家電銷售有限公司	Ningguo Anhui, PRC 23 September 2009	Domestic enterprise	RMB5,000,000	100%	100%	Retail sales of household appliances	
Jiangsu Huadong Huiyin Household Appliance Co., Ltd. 江蘇華東滙銀家電有限公司	Kunshan Jiangsu, PRC 1 November 2009	Domestic enterprise	RMB100,000,000 and RMB20,000,000	100%	100%	Retail sales of household appliances	(iv)

25 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation	Legal status	Issued or registered and paid-up capital	Effective interest hold As at 31 December 2012	2011	Principal activities	Note
Indirectly owned (continued)							
Yangzhou Huiyin Logistic Co., Ltd 揚州滙銀物流有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	US$4,000,000	100%	100%	Bulk distribution sales of household appliances	
Yangzhou Huiyin Household Appliances Sales Co., Ltd. 揚州滙銀電器銷售有限公司	Yangzhou Jiangsu, PRC 25 May 2010	Foreign investment enterprise	US$4,100,000	100%	100%	Retail sales of household appliances	(ii)
Huainan Four Seas 安徽四海匯銀家電銷售有限公司 (formerly known as "淮南市四海滙銀家電有限公司")	Huainan Anhui, PRC 16 September 2010	Domestic enterprise	RMB50,000,000	65%	65%	Retail sales of household appliances	(i)
Wuhu Huiyin Household Appliances Sales Co., Ltd. 蕪湖匯銀家電銷售有限公司	Wuhu Anhui, PRC 29 September 2010	Domestic enterprise	RMB10,000,000	100%	100%	Bulk distribution and retail sales of household appliances	
Hefei Jingmei Electrical Media Co., Ltd. 合肥精美電子傳媒有限公司	Hefei Anhui, PRC 14 November 2002	Domestic enterprise	RMB1,840,000	100%	100%	Bulk distribution sales of household appliances	(i)
Wuxi Huiyin Household Appliances Sales Co., Ltd. (formerly known as "Wuxi Runpu Household Appliances Co., Ltd.") 無錫匯銀家電銷售有限公司 （formerly known as "無錫潤普家電有限公司"）	Wuxi Jiangsu, PRC 9 December 2010	Domestic enterprise	RMB1,800,000	100%	100%	Bulk distribution sales of household appliances	
Nanjing Chaoming 南京潮明科技發展有限公司	Nanjing Jiangsu, PRC 20 June 2002	Domestic enterprise	RMB10,000,000	100%	100%	Retail and bulk distribution sales of Sony products	(i)
Huiyin Real Estate Co., Ltd. 滙銀置業有限公司	Yangzhou Jiangsu, PRC 17 February 2011	Domestic enterprise	RMB50,000,000	70%	70%	Development of real estate	(v)
Jiangsu Huiyin Electronics (Anhui) Co., Ltd. 江蘇滙銀電器(安徽)有限公司	Hefei Anhui, PRC 31 March 2011	Domestic enterprise	RMB2,000,000	100%	100%	Bulk distribution sales of household appliances	
Hefei Jingmei Household Appliances Co., Ltd. 合肥精美家電有限公司	Hefei Anhui, PRC 25 May 2011	Domestic enterprise	RMB1,000,000	100%	100%	Bulk distribution sales of household appliances	
Xuancheng Xinxing Electronics Sales Co., Ltd. 宣城欣興電器銷售有限公司	Xuancheng Anhui, PRC 18 August 2011	Domestic enterprise	RMB20,000,000	100%	100%	Bulk distribution sales of household appliances	
Jiangsu Huiyin Electronic Commerce Co., Ltd. 江蘇滙銀電子商務有限公司	Yangzhou Jiangsu, PRC 13 June 2012	Domestic enterprise	RMB10,000,000	100%	—	Online sales of household appliances and other merchandise.	
Shanghai Jingjiandongkang Trading Co., Ltd. 上海靜健動康貿易有限公司	Shanghai, PRC 24 October 2012	Domestic enterprise	RMB2,000,000	100%	—	Trading of food and other merchandise.	

25 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES *(continued)*

Notes:

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

(ii) On 13 January 2012, Yangzhou Huiyin increased its paid-up capital from US$111,427,893.34 to US$ 116,427,978.34.

On 17 October 2012, Yangzhou Huiyin Household Appliances Sales Co., Ltd. (揚州滙銀電器銷售有限公司) decreased its registered capital and paid-up capital from US$ 10,100,000 to US$ 4,100,000.

(iii) Nantong Huiyin Household Appliances Co., Ltd. (南通匯銀家電有限公司); Huai'an Huiyin Household Appliance Co., Ltd. (淮安滙銀家電有限公司); Jiangsu Huicheng Wanglian Internet Technology Co., Ltd. (江蘇滙程網聯網路技術有限公司), Nanjing Huize Electronics Sales Co., Ltd. (南京滙澤電器銷售有限公司) and Zhenjiang Huize Household Appliance Sales Co., Ltd. (鎮江滙澤電器銷售有限公司) were liquidated in July 2012, September 2012, October 2012, December 2012 and December 2012 respectively.

(iv) Yangzhou Hanshang Huiyin Household Appliance Co., Ltd. (揚州邗上滙銀家電有限公司); Wuhu Yinrui Household Appliance Sales Co., Ltd (蕪湖市銀瑞家電銷售有限公司) and Jiangsu Huadong Huiyin Household Appliance Co., Ltd. (江蘇華東滙銀家電有限公司) were liquidated in January 2013, March 2013 and February 2013, respectively.

(v) The effective interest held of Huiyin Real Estate Co., Ltd (汇银置业有限公司) increased from 70% to 100% in March 2013.

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

26 REVENUE

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of goods		
– Retail	**825,845**	1,080,486
– Bulk distribution	**1,619,247**	1,735,057
including:		
Sales to franchisees	**539,447**	691,714
Sales to other retailers and distributors	**1,079,800**	1,043,343
	2,445,092	2,815,543
Rendering of services		
– Maintenance service	**1,251**	1,327
– Installation service	**11,198**	18,259
	12,449	19,586
Total revenue	**2,457,541**	2,835,129

27 OTHER INCOME

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Income from suppliers on promotion activities	9,955	10,418
Subsidies of transportation and old merchandise arising from the Change of the Old for New Program	336	4,734
Rental income	3,922	2,032
Government subsidies (note)	986	768
	15,199	17,952

Note:

The government subsidy income for the year ended 31 December 2012 comprised amounts of RMB430,000 (2011: RMB350,000) and RMB200,000 (2011: RMB237,000) granted by Government of Yangzhou City and Government of Huainan City respectively for enterprise development, an amount of RMB356,000 (2011: RMB181,000) granted by the Ministry of Social Security of Yangzhou City for the re-employment of laid-off workers of other companies. All of the government subsidies for the year ended 31 December 2012 and 2011 are not subject to any conditions.

28 OTHER LOSSES — NET

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Net exchange gains on monetary receivables and payables	7	817
Fair value losses on contingent consideration liabilities (Note 24)	(1,888)	(11,111)
Losses on disposal of property, plant and equipment, net	(793)	(48)
Inventory write-off caused by a fire accident (Note)	(6,965)	—
Fair value losses on the derivative financial instruments (Note 23)	(1,007)	—
	(10,646)	(10,342)

Note:

The inventory write-off of RMB6,965,000 relates to merchandises that have been destroyed by fire in an accident. At 31 December 2012, the relevant insurance claim was still under process and the Group has not recognised any insurance claim income for the year 2012.

29 EXPENSES BY NATURE

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of merchandise before deducting supplier rebates	2,703,982	3,061,561
Supplier rebates	(567,839)	(595,517)
Taxes and levies on main operations	4,471	5,558
Employee benefit expenses (Note 30)	75,919	66,772
Pre-IPO Option Scheme expenses (Note 19)	4,490	10,553
Service charges	4,811	15,046
Operating lease expenses in respect of buildings and warehouses	65,367	57,341
Promotion and advertising expenses	27,483	28,420
Amortisation of land use rights (Note 7)	437	436
Depreciation of property, plant and equipment (Note 9)	19,357	22,452
Depreciation of investment properties (Note 10)	733	636
Amortisation of intangible assets (Note 11)	3,987	3,796
Utilities and telephone expenses	11,835	10,841
Transportation expenses	13,986	14,239
Entertainment expenses	4,656	6,016
Travelling expenses	4,609	7,269
Office expenses	2,263	4,673
Provision for obsolescence on inventories (Note 13)	6,488	2,125
Accrual/(reversal) of provision for impairment on receivables (Note 14)	1,255	(491)
Impairment loss against goodwill (Note 11)	11,663	2,500
Impairment loss against distribution agreement (Note 11)	18,342	—
Provision for supplier rebates receivable (Note 15)	234,775	33,401
Property tax and other taxes	4,552	4,234
Auditor's remuneration	2,825	3,825
Bank charges	7,795	5,713
Consulting expenses	1,888	3,108
Others	16,522	14,575
Total of cost of sales, selling and marketing expenses and administrative expenses	2,686,652	2,789,082

30 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Salaries and other allowances	57,024	48,911
Social security costs	15,992	17,861
Other benefits	2,903	—
	75,919	66,772

(a) The employees of the subsidiaries of the Group in the PRC participate in defined contribution retirement benefit plans organised by the relevant local governments. For the year ended 31 December 2012, these subsidiaries were required to make monthly defined contributions to these plans at rates ranging from 34.1 % to 44.0% of their total salaries subject to certain ceilings (2011: 34.8% to 42.3%).

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

31 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

For the years ended 31 December 2012 and 2011, the remuneration of directors of the Company paid/payable by the Group were as follows:

	For the year ended 31 December 2012					
Name of directors	Salaries and other allowances RMB'000	Bonuses RMB'000	Social security costs RMB'000	Pre-IPO Option Scheme expenses RMB'000	Other benefits RMB'000	Total RMB'000
Chairman and executive director						
– Mr. Cao Kuanping	1,827	—	34	2,245	2,275	6,381
Other executive directors						
– Mr. Wang Zhijin	965	69	108	269	314	1,725
– Mr. Mao Shanxin	232	68	34	898	—	1,232
– Mr. Mo Chihe	265	35	34	269	314	917
– Mr. Lu Chaolin	224	77	21	269	—	591
Independent non-executive directors						
– Mr. Tam Chun Chung	81	—	—	—	—	81
– Mr. Zhou Shui Wen	41	—	—	—	—	41
– Mr. Tan Bien Kiat	38	—	—	—	—	38
	3,673	249	231	3,950	2,903	11,006

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

(a) Directors' and chief executive's emoluments *(continued)*

	For the year ended 31 December 2011				
Name of directors	Salaries and other allowances RMB'000	Bonuses RMB'000	Social security costs RMB'000	Pre-IPO Option Scheme expenses RMB'000	Total RMB'000
Chairman and executive director					
– Mr. Cao Kuanping	1,827	—	34	5,277	7,138
Other executive directors					
– Mr. Wang Zhijin	753	—	86	633	1,472
– Mr. Mao Shanxin	259	—	34	2,111	2,404
– Mr. Mo Chihe	281	68	34	633	1,016
– Mr. Lu Chaolin	149	51	21	633	854
Independent non-executive directors					
– Mr. Tam Chun Chung	83	—	—	—	83
– Mr. Zhou Shui Wen	42	—	—	—	42
– Mr. Tan Bien Kiat	20	—	—	—	20
– Mr. Li Fei	21	—	—	—	21
	3,435	119	209	9,287	13,050

The chief executive of the Company is Mr. Cao Kuanping, who is also one of the directors of the Company.

During the years ended 31 December 2012 and 2011, none of the directors of the Company (i) received any emolument from the Group as an inducement to join or upon joining the Group; or (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include four (2011: four) directors, whose emoluments were reflected in the analysis presented above. The emoluments paid/payable to the remaining one (2011: one) individual were as follows:

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Salaries and other allowances	827	149
Bonuses	—	100
Social security costs	13	15
Pre-IPO Option Scheme expenses	—	633
	840	897

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

	Year ended 31 December	
	2012	2011
Emoluments bands		
— Nil to HK$1,000,000	—	—
— HK$1,000,001 to HK$1,500,000	1	1
	1	1

32 FINANCE COSTS — NET

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Finance income		
– Interest income on bank deposits	16,904	9,195
Finance costs		
– Interest expenses on discounting of bills receivable	(2,426)	(8,040)
– Interest expenses on bank borrowings	(48,326)	(15,892)
– Interest expenses on medium-term notes	(9,511)	—
– Net foreign exchange (losses) /gains on cash and cash equivalents and bank borrowings	(3,419)	2,133
	(63,682)	(21,799)
Net finance costs — net	(46,778)	(12,604)

33 INCOME TAX CREDIT/(EXPENSE)

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
PRC enterprise and withholding income taxes		
— Current income tax	(22,949)	(41,146)
— Deferred income tax (Note 12)	67,286	19,123
	44,337	(22,023)

33 INCOME TAX CREDIT/(EXPENSE) *(continued)*

The taxation on the Group's (loss) /profit before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to (losses) /profits in the respective regions as follows:

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
(Loss)/profit before income tax	(271,336)	41,053
Tax calculated at domestic tax rates applicable to (losses) /profits in the respective regions	(63,886)	19,329
Tax effects of :		
Income not subject to tax	(33)	(7,081)
Expenses not deductible for tax purpose	6,917	9,498
Tax losses for which no deferred income tax asset was recognised	12,677	66
Utilisation of previously unrecognised deferred tax asset	(12)	—
Withholding tax on the unremitted earnings of PRC subsidiaries	—	211
Income tax (credit) /expense	(44,337)	22,023

The weighted average applicable tax rate was 24% (2011: 47%).The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective regions.

(a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the year (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 companies established outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. Such withholding income tax is included in deferred income tax. The Group has not accrued for any PRC withholding income tax for the year ended 31 December 2012 as its PRC subsidiaries did not earn any profit during the year (2011: 10%).

34 (LOSS) /EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the (loss) /profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2012	2011
(Loss)/profit attributable to equity holders of the Company (RMB'000)	(226,687)	15,509
Weighted average number of ordinary shares in issue (thousand)	1,048,342	1,048,342
Basic (loss) /earnings per share (RMB cents)	(21.62)	1.48

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the settlement in ordinary shares for contingent consideration arising from business combination assuming it was settled by issuance of ordinary shares.

	Year ended 31 December	
	2012	2011
(Loss) /profit attributable to equity holders of the Company (RMB'000)	(226,687)	15,509
Weighted average number of ordinary shares in issue (thousand)	1,048,342	1,048,342
Adjustment for:		
– Settlement in ordinary shares for the contingent consideration arising from business combination (thousand)	129,081	58,709
Weighted average number of ordinary shares for diluted (loss) / earnings per share (thousand)	1,177,423	1,107,051
Diluted (loss) /earnings per share (RMB cents)	(19.25)	1.40

For the years ended 31 December 2012 and 2011, as the average market price of the ordinary shares during the year was lower than the subscription price, the impact of exercise of the share options granted under the Pre-IPO Option Scheme on (loss)/earnings per share is anti-dilutive.

35 DIVIDENDS

No interim dividend was declared during the year (2011: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2012 (2011: Nil).

36 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
(Loss)/profit before income tax	(271,336)	41,053
Adjustments for:		
– Net foreign exchange losses /(gains) on cash and cash equivalents and bank borrowings (Note 32)	3,419	(2,133)
– Net foreign exchange gains on monetary receivables and payables (Note 28)	(7)	(817)
– Amortisation of land use rights (Note 7)	437	436
– Depreciation of property, plant and equipment (Note 9)	19,357	22,452
– Depreciation of investment properties (Note 10)	733	636
– Amortisation of intangible assets (Note 11)	3,987	3,796
– Impairment loss against goodwill (Note 11)	11,663	2,500
– Impairment loss against distribution agreement (Note 11)	18,342	—
– Losses on disposal of property, plant and equipment (Note 28)	793	48
– Finance income (Note 32)	(16,904)	(9,195)
– Interest expenses (Note 32)	60,263	23,932
– Fair value losses on contingent consideration liabilities (Note 28)	1,888	11,111
– Fair value losses on the derivative financial instruments (Note 28)	1,007	—
– Provision for obsolescence on inventories (Note 13)	6,488	2,125
– Accrual/(reversal) of provision for impairment on receivables (Note 14)	1,255	(491)
– Provision for supplier rebates receivable (Note 15)	234,775	33,401
– Inventory write-off caused by a fire accident (Note 28)	6,965	—
– Pre-IPO Option Scheme expenses	4,490	10,553
Operating profit before working capital changes	87,615	139,407
Changes in working capital:		
– Increase in inventories	(17,952)	(104,878)
– Increase in trade and bills receivables	(264,732)	(3,272)
– Increase in prepayments, deposits and other receivables	(177,312)	(202,696)
– Decrease/(increase) in restricted bank deposits pledged for bank acceptance bills	3,053	(22,321)
– Increase in trade and bills payables	23,164	20,135
– Increase in accruals and other payables	74,401	46,601
Cash used in operations	(271,763)	(127,024)

36 CASH GENERATED FROM OPERATIONS *(continued)*

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Net book amount (Note 9)	3,460	465
Losses on disposal of property, plant and equipment (Note 28)	(793)	(48)
Proceeds from disposal of property, plant and equipment	2,667	417

37 COMMITMENTS

(a) Commitments for capital and property development expenditure

	As at 31 December	
	2012	2011
	RMB'000	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 31 December	
	2012	2011
	RMB'000	RMB'000
Not later than 1 year	48,607	59,705
Later than 1 year and not later than 5 years	169,442	214,766
Later than 5 years	88,012	136,875
	306,061	411,346

38 FUTURE OPERATING LEASE RENTALS RECEIVABLE

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Not later than 1 year	7,238	1,751
Later than 1 year and not later than 5 years	14,794	906
Later than 5 years	25	24
	22,057	2,681

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

39 RELATED PARTY TRANSACTIONS

(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 years presented.

Name	Relationship with the Group
Mr. Cao Kuanping	Substantial shareholder of the Company/Director

(b) Transactions with related parties

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
– Rental expenses to a related party		
Mr. Cao Kuanping	810	837
– Directors' emoluments		
Salaries, bonuses and other welfares	11,006	13,050

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

39 RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries and other allowances	**3,513**	3,269
Bonuses	**249**	119
Social security costs	**231**	209
Pre-IPO Option Scheme expenses	**3,950**	9,287
Other benefits	**2,903**	—
	10,846	12,884

(d) Balances with related parties:

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Balances due to related parties:		
Accruals and other payables (Note 21)		
– Mr. Cao Kuanping	**463**	146
Salaries, bonuses and welfares payable to directors		
– Mr. Cao Kuanping	**99**	152
– Mr. Mao Shanxin	**84**	22
– Mr. Mo Chihe	**54**	23
– Mr. Wang Zhijin	**129**	131
– Mr. Lu Chaolin	**93**	68
	459	396
	922	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.

40 CONTINGENCIES

In respect of the acquisition of the business of Xingfushu through Huainan Four Seas on 1 November 2010 (Note 24), 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.

41 SUBSEQUENT EVENTS

(a) The Group has been leasing certain properties from Mr. Cao Kuanping, a substantial shareholder and a director of the Company, for office use since 2008. On 18 January 2013, a new leasing contract was entered into with Mr. Cao for such properties to replace the original leasing contract. In addition, another new leasing contract was entered into with Mr. Cao to lease further properties located at the same building for the purpose of opening a new retail store to replace the one which was caught by fire during 2012. The annual rent payable to Mr. Cao by the Group under the two new leasing contracts amounts to RMB3,650,000 in aggregate for the 3 years from 2013 to 2015. The two leasing contracts will expire on 19 January 2016.

(b) The Group had successfully bid for the land use rights of a plot of land located in Yangzhou (Note 8) which is intended to develop into a real estate complex, including a large flagship retail store of the Group, and paid a deposit of RMB117,710,000, being 50% of the consideration, in 2011. In January 2013, the Group settled the remaining 50% of the consideration, amounting to RMB117,710,000 and obtained the land use rights certificate on 5 February 2013. Such land use rights, together with certain other land use rights, buildings and investment properties, with a total net book amount of RMB280,447,000 were then pledged as collateral for the Group's medium-term notes with an aggregate principal amount of RMB390,000,000 issued in 2012. Restricted bank deposits of RMB100,000,000 (Note 16) originally pledged as collateral for the medium-term notes were released.

42 APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 44 to 117 were approved and authorised for issue by the board of directors of the Company on 22 March 2013.

Financial Summary

	As at and for the year ended 31 December				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Revenue	**2,457,541**	2,835,129	1,784,450	1,247,825	988,214
(Loss)/profit attributable to equity holders of the Company	**(226,687)**	15,509	91,719	91,477	38,197
Total assets	**3,089,332**	2,515,235	1,856,880	945,544	767,624
Total liabilities	**2,205,991**	1,409,085	784,591	370,081	284,738
Total equity	**883,341**	1,106,150	1,072,289	575,463	482,886
Non-controlling interests in equity	**40,326**	40,938	15,317	2,508	1,408