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

# 2013
# INTERIM REPORT

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhou Shuiwen
Mr. Tam Chun Chung
Mr. Lo Kwong Shun Wilson

## COMPANY SECRETARY

Ms. Ngai Kit Fong

## AUDIT COMMITTEE

Mr. Tam Chun Chung *(Chairman)*
Mr. Zhou Shuiwen
Mr. Lo Kwong Shun Wilson

## REMUNERATION COMMITTEE

Mr. Zhou Shuiwen *(Chairman)*
Mr. Cao Kuanping
Mr. Lo Kwong Shun Wilson

## NOMINATION COMMITTEE

Mr. Lo Kwong Shun Wilson *(Chairman)*
Mr. Mo Chihe
Mr. Zhou Shuiwen

## AUTHORISED REPRESENTATIVES

Mr. Cao Kuanping
Ms. Ngai Kit Fong

## REGISTERED OFFICE

Floor 4
Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

Huiyin Building
No. 539 Wenchang Zhong Road
Yangzhou City
Jiangsu Province
PRC

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

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
*(with effect from 3 September 2013)*

## AUDITOR

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

## SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

## PRINCIPAL BANKERS

Bank of Communications (Yangzhou Branch)
No. 2 Wenhe North Road
Yangzhou City
Jiangsu Province
PRC

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

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

China Citic Bank (Yangzhou Branch)
No. 171 Weiyang Lu
Yangzhou City
Jiangsu Province
PRC

## STOCK CODE

1280

## WEBSITE OF THE COMPANY

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In the first half of 2013, the Chinese economy remained stable under the ever-changing market circumstances. According to the statistics of the National Bureau of Statistics of China, the GDP growth rate for the first half of 2013 reached 7.6%. With the increasing income of urban and rural residents, the growth rate of consumption in Mainland China picked up. Both the rapid development of the high-end home appliances market and the demand of customers for product replacements and upgrades brought new growth momentum for the household appliances industry. On the other hand, the household appliances industry faced uncertainties as well as opportunities and challenges for its development after the withdrawal of policies such as the "Rural Appliance Rebate Program", the "Old for New Program" and the energy saving subsidy policy.

According to the statistics published by the National Bureau of Statistics of China, the total retail sales of consumer goods in the country for the first half of 2013 was RMB11,076.4 billion, representing a year-on-year growth of 12.7% and a decrease of 1.7 percentage points as compared with the growth rate for the same period of last year. Retail sales of consumer goods in urban areas was approximately RMB9,578.9 billion, representing a year-on-year growth of 12.5%, while those in rural areas was approximately RMB1,497.5 billion, representing a year-on-year growth of 14.3%. Sales of household appliances and AV equipment reached approximately RMB326.9 billion, representing an increase of 15.3% over the same period of last year.

In terms of residents' income growth, the third and fourth-tier household appliances market in China still has room for development. Rural residents' income continue to grow faster than that of urban residents during the period under review. According to the data from the National Bureau of Statistics of China, for the first half of 2013, the disposable income per capita of urban residents was RMB13,649, representing an actual year-on-year growth of 6.5%; while the cash income per capita of rural residents was RMB4,817, representing an actual year-on-year growth of 9.2%. As the income gap between urban and rural residents gradually narrows down, the consumption potential of rural residents is huge and the demand of rural residents for high-quality household appliances will increase substantially.

Benefiting from the energy conservation subsidy policy, the PRC household appliances industry achieved stable development during the period under review. According to the statistics of the Ministry of Finance, as at 31 May 2013 when the energy saving subsidy policy was withdrawn, monthly sales amount of energy-saving household appliances increased from over 1.6 million units in last June when the policy was launched to about 7 million units now. Since the implementation of the promotion policy, more than 65 million units of energy-saving household appliances under five categories have been promoted, driving consumption needs by more than RMB250 billion. It can be seen that the household appliances policy play an active role in driving domestic demand and promoting industry upgrade.

# BUSINESS REVIEW

## An integrated three-pronged operation model

Since our establishment, the Group has been adhering to its integrated business model comprising of retail sales, bulk distribution (including sales to franchised stores) and after-sales services. By making full use of its extensive sales network and resources in the third and fourth-tier markets and capturing premium market opportunities, the Group gradually became a leader in the third and fourth-tier home appliance markets in China. During the period under review, the Group actively expanded and deepened its network of self-operated stores and franchised stores and took advantage of its "Huiyin" brand, thereby further enhancing the recognition of the Group in targeted markets and strengthening its leading market position.

Supported by its existing retail business, the Group actively expanded all business segments through self-operated stores and its extensive franchise network. During the period under review, the Group continued to focus on customer relations management and strengthen its internal operation management, and enhanced customer loyalty while optimizing operation efficiency.

For the six months ended 30 June 2013, total revenue of the Group was approximately RMB1,316.2 million, representing an increase of 13.1% as compared with approximately RMB1,164.0 million for the same period in 2012. Loss of the Group for the period was approximately RMB104.4 million, while profit for the same period in 2012 was approximately RMB4.7 million. Gross profit margin decreased to 13.7%, representing a year-on-year decrease of 2.0 percentage points. The decrease in gross profit margin and the losses recorded for the period were attributable to the slow recovery of domestic demand for household appliances, the increasing competition faced by the overall household appliances industry which led to great pressure on product selling price, and 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.

## Retail business

### Self-operated stores

The Group has placed its business focus on high-growth markets in third and fourth-tier cities in Jiangsu and Anhui Provinces, and sold a variety of products and brands through its self-operated stores.

During the period under review, the Group continued to optimize its store management program and made appropriate adjustments according to sales of the respective stores. As at 30 June 2013, the Group had 46 self-operated stores, including 39 general stores, 5 shop-in-shops located in department stores and 2 brand retail stores. During the period, the Group's revenue from self-operated stores increased by 14.7% to RMB462.9 million, accounting for approximately 35.2% of the Group's total sales revenue.

During the period under review, the Group continued to optimize its product structure and flexibly adjusted product portfolio.

In respect of client management, the Group continued to implement its business strategies focusing on establishing client relationship, whereby sorting out client information and establishing client database by means of alliance across different industries and group purchases, established and maintained good relationship with customers and gradually improved customer loyalty. Through the implementation of various optimization strategies, the Group improved its overall competitiveness and operation efficiency significantly during the period under review.

### Franchised stores

Most of the franchised stores of the Group were operated under the registered brand of "Huiyin". During the period under review, the Group continued to enhance the management of its franchised stores by upgrading and integrating original franchised stores, optimizing store layout and expanding its sales network in target areas in order to expand its sales revenue, thereby increasing its market share. As of 30 June 2013, the Group had a total of 87 franchised stores. Revenue derived from sales to franchised stores increased by 17.1% to RMB253.1 million, accounting for approximately 19.2% of the Group's total sales revenue.

During the period under review, the Group continued to increase its training efforts to staff of franchised stores, including the provision of periodic multi-facet and multi-level training sessions covering business-related merchandize knowledge and product sales skills, which resulted in a substantial improvement in the operational efficiency of our franchised stores. On the other hand, the Group also actively contacted upstream factories, carried out normalized management of the interaction between upstream factories and franchised stores, provided more resources for franchised stores, and enhanced the sales confidence and operational quality of franchised stores through a diversity of promotional methods.

### Store network

The Group adopted a strategy of expanding its store network of self-operated stores and franchised stores simultaneously, whereby the Group increased its market share in targeted markets and gradually strengthened its leading position in the highly-fragmented third and fourth-tier markets. As of 30 June 2013, the Group had an integrated retail network with 133 stores in 26 cities or districts of Jiangsu and Anhui Provinces, of which 46 and 87 were self-operated stores and franchised stores, and the total number of stores in Jiangsu and Anhui Provinces was 118 and 15 respectively.

## Bulk distribution business

The Group distributes as a supplier to our franchised stores as well as other independent third parties. Bulk distribution business and retail business of the Group are complementary to each other, which provided stable supply for our self-operated stores and franchised stores. Meanwhile, backed by ownership of an established and extensive sales network in the third and fourth-tier markets, the Group well understands consumers' demand and preferences in target market, enabling it to better meet the market demand and consolidate its market position.

During the period under review, the Group continued to launch flexible and diversified promotion activities such as group purchase of brand products and warehouse marketing, and planned promotion activities of four events for each month in association with upstream suppliers, resulting in the increase in market share and enhancement of industrial recognition.

## After-sales services

After-sales services is important to the continued expansion of the Group's retail and bulk distribution business and also the competitive advantage of the Group. Operating through authorised arrangements with independent third party operators allowed the Group to extend the geographic coverage of its after-sales customer service with less capital and operational risks. As at 30 June 2013, the Group operated and managed a total of 54 service centers, of which 3 were self-operated service centers and 51 were authorized service centers, providing quality services for customers across a broad geographical area.

During the period under review, the Group continued to promote its commitment to diversified after-sales services to enhance service quality, which in turn increased customer loyalty and significantly enhanced brand awareness and recognition. During the period under review, the Group continued to promote the extended warranty plan ("匯金保"延保計劃), under which consumers may choose to extend their warranty period by paying a minimal one-off extended warranty fee to enjoy quality maintenance and repair services. The plan provides customized extended warranty solutions in accordance with various consumer needs and offers diversified after-sales service choices to consumers, hence being widely welcomed and recognized by consumers.

## Diversified marketing strategies

In order to meet the market demand of consumers in different regions, the Group has adopted diversified marketing and brand promotion strategies and has flexibly established strategic store locations in different areas. During the period under review, the Group continued to upgrade and renovate stores, optimized store distribution and product structure and made improvements in sales, management and services.

During the period under review, the Group launched diversified promotion activities, including "Huiyin Home Appliance Cleaning Festival (匯銀家電清洗節)", "May 1st Golden Week Huiyin Best Value Group Purchase (五一黃金周匯銀聚劃算團購會)", "Huiyin Home Appliance Refrigeration Festival (匯銀家電製冷節)" and "Horizontal Alliance Special Promotion (異業聯盟專場促銷)", which offered more concessions to consumers and contributed to the Group's sales revenue.

In respect of e-commerce services, various marketing modes developed by www.Leehuu.com (Huiyin Lehu Mall) of the Group, such as B2C, sales at point of delivery, community purchase and direct operated premium stores, have effectively combined physical stores with online shops, hence promoting the advancement of the Group's e-commerce business. In the first half of 2013, the Group achieved rapid delivery of orders through establishment of multi-channel marketing arrangement, comprehensive building of various online shops enabled the Group to unify its treatment of orders, and online to offline business integration allowed centralized management of its downstream business.

## Information technology system construction and information monitoring

The Group is committed to integrating and reforming its existing information management system to cope with its business growth and to obtain sufficient information for use by the Group and its franchised stores and in turn optimize its operations and management. During the period under review, the Group further improved its ERP system. The use of the JL system (金力系統) had enabled the Group to further regulate the process of its procurement and sales, better monitor the performance of its staff and facilitate the information management of its franchised stores. With such system, its franchised stores do not need inventories, which has eased the Group's inventory pressure and significantly optimized the sales model of its warehouses.

## Information-based human resources management

As at 30 June 2013, the Group had 906 employees. During the period under review, the Group continued to optimize its human resources management structure and improve the skills of its employees. Through participating in diversified training sessions, the staff has developed their skills while gaining expertise. Meanwhile, the Group communicated with its employees regarding career planning and occupational health through "enterprise culture building", and provided them with new insights in terms of career development. During the period under review, the Group organized over 29 training sessions in various aspects, with a total of approximately 1,300 participating employees.

## Outlook

In the second half of 2013, challenges will remain for the global economy, retail business such as the home appliances industry will continue to face huge pressure. The growing size of cities with the progress of China's urbanization, the increase in residential income in third and fourth-tier cities and the improvement in housing conditions will support the growth of demand for home appliances and become new growth drivers for the market. Other than the steady demand from first-time buyers, China's consumption of household appliances now mainly derives from the need for replacement and upgrade. According to a statistics, the demand arising from the need to replace and upgrade home appliances will exceed RMB10 trillion in the next eight years.

In the second half of 2013, the Group will continue to implement its strategy to focus on third and fourth-tier cities. By leveraging its supply chain advantage in the PRC third and fourth-tier markets, the Group will continue to consolidate its leading position in these markets and seek stronger growth drivers through retailing, agency sales, franchise, after-sales services, development of e-commerce combined with the full upgrade of logistics system.

2013 is a year of transformation for Huiyin. It will strive to improve the competitiveness and recognition of its e-commerce segment through combining online sales and sales at its physical stores. In the second half of the year, it will focus on developing Huiyin Lehu Mall and collaborating with major websites to introduce a shopping experience combining online and offline sales by allowing customers to purchase online and receive delivery from its physical stores. By way of combining the traditional home appliances sales model and innovative media as well as realising thorough communication and interaction with its customers, the Group will continue to transform and upgrade.

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

## FINANCIAL REVIEW

### Revenue

During the period under review, due to the business development, the recovery in the household appliances consumer market and accelerated urbanization of rural area despite impact of macro-economic slowdown and expiration of the subsidies for energy-efficient household appliances at the end of the period, the Group's revenue was approximately RMB1,316.2 million, representing an increase of 13.1% from approximately RMB1,164.0 million for the same period of 2012.

Turnover of the Group comprises revenues by operation as follows:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | RMB'000 | | RMB'000 | |
| Retail | 462,923 | 35.2% | 403,703 | 34.7% |
| Bulk distribution | | | | |
| – Sales to franchisees | 253,103 | 19.2% | 216,086 | 18.5% |
| – Sales to other retailers and distributors | 595,302 | 45.2% | 538,596 | 46.3% |
| Rendering of services | 4,868 | 0.4% | 5,573 | 0.5% |
| Total revenue | 1,316,196 | 100. 0% | 1,163,958 | 100.0% |

The increase in sales of retail and bulk distribution was mainly attributable to the business development, the recovery in the household appliances consumer market and accelerated urbanization of rural area in the first half of 2013.

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

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | RMB'000 | | RMB'000 | |
| Air-conditioners | 819,372 | 62.5% | 674,378 | 58.2% |
| TV sets | 291,190 | 22.2% | 233,867 | 20.2% |
| Refrigerators | 90,282 | 6.9% | 95,155 | 8.2% |
| Washing machines | 49,230 | 3.8% | 59,606 | 5.2% |
| Others | 61,254 | 4.6% | 95,379 | 8.2% |
| Total revenue | 1,311,328 | 100.0% | 1,158,385 | 100.0% |

The percentage of air-conditioner sales increased in the first half of 2013, 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 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 increased by approximately 15.7% from RMB981.8 million for the six months ended 30 June 2012 to RMB1,135.7 million for the six months ended 30 June 2013, primarily due to an increase in sales volume.

## Gross profit

Our gross profit decreased by approximately 0.9% from RMB182.2 million for the six months ended 30 June 2012 to RMB180.5 million for the six months ended 30 June 2013.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| Retail | **18.6%** | 20.0% |
| Bulk distribution | **10.8%** | 13.2% |
| Rendering of services | **65.7%** | 27.8% |
| Overall | **13.7%** | 15.7% |

The decrease in gross profit margin of our retail and bulk distribution operations was due to the increasing competition faced by the overall household appliances industry which led to great pressure on product selling price.

The gross profit margin of our rendering of services increased from the same period of 2012, which was primarily due to the higher gross margin for the services provided under the warranty plan.

## Other income

During the period under review, the Group recorded other income of approximately RMB7.2 million, representing a slight increase from approximately RMB6.9 million for the same period in 2012.

## Other gains/(losses)

During the period under review, the Group recorded other gains of approximately RMB3.1 million, while other losses of approximately RMB0.9 million was recorded in the same period in 2012. The gains mainly included the receipt of insurance claim income amounting to RMB6.4 million arising from the fire which broke out last year on 25 October 2012.

## Selling and marketing expenses

During the period under review, the Group's total selling and marketing expenses amounted to approximately RMB81.9 million, representing a decrease from approximately RMB85.6 million for the same period in 2012, which was in line with the decrease of store number.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| Employee benefit expenses | **1.23%** | 1.31% |
| Service charges | **0.20%** | 0.27% |
| Operating lease expenses in respect of buildings and warehouses | **2.18%** | 2.45% |
| Promotion and advertising expenses | **0.72%** | 1.24% |
| Depreciation of property, plant and equipment | **0.81%** | 1.00% |
| Utilities and telephone expenses | **0.22%** | 0.40% |
| Transportation expenses | **0.52%** | 0.39% |
| Travelling expenses | **0.07%** | 0.10% |
| Others | **0.27%** | 0.20% |
| Total selling and marketing expenses | **6.22%** | 7.36% |

The decrease of percentage of selling and marketing expenses was mainly due to the increase of sales and decrease of store number.

## Administrative expenses

During the period under review, the Group's total administrative expenses amounted to approximately RMB221.1 million, representing an increase from approximately RMB71.4 million for the same period of 2012, which was mainly due to the increase of provision for impairment on receivables.

If the impact of provision for impairment on receivables and impairment loss against goodwill is excluded, the total administrative expenses would be approximately RMB46.9 million for the period under review, and the total administrative expenses would be RMB52.5 million for the same period in 2012.

The following table sets out a summary for administrative expenses:

| | Six months ended 30 June | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Employee benefit expenses | 18,866 | 22,696 |
| Pre-IPO share option expenses | 602 | 2,682 |
| Operating lease expenses in respect of buildings | 2,735 | 3,798 |
| Utilities and telephone expenses | 1,121 | 1,447 |
| Travelling expenses | 720 | 1,042 |
| Auditors' remuneration | 1,525 | 1,655 |
| Consulting expenses | 830 | 890 |
| Amortisation of intangible assets | 1,807 | 2,016 |
| Provision for impairment on receivables | 174,171 | 8,905 |
| Impairment loss against goodwill | — | 10,000 |
| Others | 18,708 | 16,317 |
| Total administrative expenses | 221,085 | 71,448 |

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 the first half of 2013. The slow settlement of rebates receivable had led to a worsen ageing and a higher provision for impairment accordingly.

## Operating (loss)/profit

Loss from operations was approximately RMB112.2 million for the six months ended 30 June 2013, while there was profit from operations of approximately RMB31.0 million for the same period in 2012. The loss was mainly due to the combining effect of the decrease in the gross profit and the increase in provision for impairment on rebates receivable.

## Finance income and costs

During the period under review, the Group's net finance costs was approximately RMB13.7 million, representing a slight decrease from approximately RMB16.6 million for the six months ended 30 June 2012.

## (Loss)/profit before income tax

During the period under review, the loss before income tax was approximately RMB125.9 million, while there was profit before income tax of approximately RMB14.4 million for the same period of 2012.

## Income tax

During the period under review, the Group's income tax credit was approximately RMB21.5 million, representing 17.1% of the loss before income tax, while there was tax expense of approximately RMB9.7 million, representing 67.2% of the profit before income tax for the same period of 2012.

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

The Group's loss attributable to equity holders for the period under review was approximately RMB104.0 million, while there was profit attributable to equity holders of approximately RMB2.6 million for the same period in 2012.

## Cash and cash equivalents

As at 30 June 2013, the Group's cash and cash equivalents were approximately RMB123.8 million, representing an increase of 64.6% from approximately RMB75.2 million at the end of 2012.

## Inventories

As at 30 June 2013, the Group's inventories amounted to approximately RMB547.8 million, representing an increase from RMB387.2 million at the end of 2012, which was mainly due to the addition of the cost of a land parcel amounting to RMB243.1 million acquired from Yangzhou Municipal Land Bureau.

## Prepayments, deposits and other receivables

As at 30 June 2013, prepayments, deposits and other receivables of the Group amounted to approximately RMB711.7 million, representing a significant decrease from approximately RMB911.1 million at the end of 2012, which was mainly due to the provision for impairment on receivables of RMB174.2 million in the first half of 2013.

## Trade and bills receivables

As at 30 June 2013, trade and bills receivables of the Group amounted to approximately RMB623.5 million, representing an increase from approximately RMB437.1 million at the end of 2012, which was mainly due to the increase of bills receivable.

## Trade and bills payables

As at 30 June 2013, trade and bills payables of the Group amounted to approximately RMB659.4 million, representing an increase from approximately RMB570.4 million at the end of 2012.

## Gearing ratio and the basis of calculation

The Group's gearing ratio as at 30 June 2013 and 31 December 2012 was 67.6% and 59.7% respectively. The increase was mainly due to the increase of borrowing balance. The gearing ratio is equal to total borrowings divided by total balances of equity and borrowings.

## Capital expenditure

During the period under review, capital expenditure of the Group amounted to approximately RMB22.2 million, representing an increase from approximately RMB10.5 million for the same period in 2012.

## Cash flows

During the period under review, net cash outflow from operating activities of the Group amounting to approximately RMB117.0 million as compared to approximately RMB200.9 million for the same period in 2012. The lower net cash outflow was mainly due to the better control in the working capital compared with the same period in 2012. If the remaining payment of RMB118.1 million related to the acquisition of a land parcel intended to be developed into properties for sale is excluded, there would be net cash inflow from operating activities of approximately RMB1.1 million.

Net cash outflow from investing activities amounted to approximately RMB24.2 million as compared to approximately RMB5.9 million for the same period in 2012, which was mainly due to the increase in the purchase of property, plant and equipment compared with the same period in 2012.

Net cash inflow from financing activities amounted to approximately RMB191.4 million, while the net cash inflow from financing activities amounted to approximately RMB356.9 million for the same period in 2012. The lower net cash inflow was mainly due to the increase of repayments of bank borrowings.

## Liquidity and financial resources

During the period under review, the Group's working capital, capital expenditure and cash for investment were funded from cash on hand, bank borrowings, medium-term notes and IPO proceeds. As at 30 June 2013, the interest-bearing bank borrowings of the Group amounted to RMB1,593.7 million, representing an increase from RMB1,306.0 million as at 31 December 2012.

## Pledging of assets

As at 30 June 2013, the Group's pledged bank deposits and bills receivable amounted to RMB955.8 million and RMB329.8 million respectively. Certain land use rights, buildings and investment properties with a total net book amount of RMB420.7 million had been pledged.

## Contingent liabilities

As at 30 June 2013, the Group had no contingent liabilities which have not been properly accrued for.

## Foreign currencies and treasury policy

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

## USE OF FUNDS RAISED FROM INITIAL PUBLIC OFFERING

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

As stated in the prospectus of the Company dated 12 March 2010, we intend to use approximately HK$156.5 million (equivalent to approximately RMB137.9 million) for expansion of our retail network, approximately HK$203.2 million (equivalent to approximately RMB178.3 million) for potential acquisitions of home appliances and electronics retail enterprises in eastern China which target at the third and fourth-tier markets, approximately HK$55.0 million (equivalent to approximately RMB48.4 million) for expansion of our existing distribution and logistics centers in Jiangsu Province, approximately HK$5.0 million (equivalent to approximately 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 30 June 2013, our use of net proceeds raised from IPO was as follows:

| | **Net proceeds from IPO** | |
|---|---|---|
| | **Available to utilise** (RMB million) | **Utilised (up to 30 June 2013)** (RMB million) |
| Expansion of retail network | 137.9 | 137.9 |
| Acquisitions of home 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 |

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

## EMPLOYMENT AND REMUNERATION POLICY

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

## HUMAN RESOURCES

As at 30 June 2013, the Group had 906 employees, down 9.1% from 997 at the end of 2012.

## INTERIM DIVIDEND

The board of directors (the "Board") of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2013.

# OTHER INFORMATION

## SHARE OPTION SCHEMES

On 5 March 2010, we have adopted a share option scheme (the "Share Option Scheme") and a pre-IPO option scheme (the "Pre-IPO Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Share Option Scheme and the Pre-IPO Option Scheme include, without limitation, directors and employees of the Company, or any of its subsidiaries or associated companies. Up to 30 June 2013 and as at the date of this interim report, no share option has been granted or agreed to be granted to any person under the Share Option Scheme.

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

| | Number of Pre-IPO Options | | | | |
|---|---|---|---|---|---|
| Name | As at 1 January 2013 | Granted during the period | Exercised during the period | As at 30 June 2013 | Approximate percentage of interest in the Company |
| Cao Kuanping<br>*Chairman and Executive Director* | 25,000,000 | – | – | 25,000,000 | 2.38% |
| Mo Chihe<br>*Executive Director* | 3,000,000 | – | – | 3,000,000 | 0.29% |
| Mao Shanxin<br>*Executive Director* | 10,000,000 | – | – | 10,000,000 | 0.95% |
| Wang Zhijin<br>*Executive Director and Chief Financial Officer* | 3,000,000 | – | – | 3,000,000 | 0.29% |
| Lu Chaolin<br>*Executive Director and Vice General Manager* | 3,000,000 | – | – | 3,000,000 | 0.29% |
| Gao Yuan<br>*General manager of Yangzhou Hengxin Air-conditioner Sales Co., Ltd.* | 3,000,000 | – | – | 3,000,000 | 0.29% |
| Sun Qingxiang<br>*General manager of Yangzhou Huide Electronics Distribution Co., Ltd.* | 3,000,000 | – | – | 3,000,000 | 0.29% |

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

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

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

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

The subscription price payable upon the exercise of any Pre-IPO Options is fixed at HK$1.521. No further options will be offered under the Pre-IPO Option Scheme. Details of the valuation of the Pre-IPO Options are set out in note 16(a) to the unaudited condensed consolidated interim financial statements of this interim report.

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

As at 30 June 2013, the interests or short positions of our Directors and chief executives of our Company in the equity or debt securities of our Company or any associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO") which had to be notified to our Company and the Stock Exchange under Division 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which was required, under Section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, were as follows:

| Name | Name of corporation | Capacity | 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% |
| Lu Chaolin | The Company | Beneficial owner | 3,000,000 underlying Shares (L) | 0.29% |
| | The Company | Beneficial owner | 3,000,000 underlying Shares (S) | 0.29% |
| Mo Chihe | The Company | Beneficial owner | 3,000,000 underlying Shares (L) | 0.29% |
| | The Company | Beneficial owner | 3,000,000 underlying Shares (S) | 0.29% |
| Mao Shanxin | The Company | Beneficial owner | 10,000,000 underlying Shares (L) | 0.95% |
| | The Company | Beneficial owner | 10,000,000 underlying Shares (S) | 0.95% |
| Wang Zhijin | The Company | Beneficial owner | 3,000,000 underlying Shares (L) | 0.29% |
| | The Company | Beneficial owner | 3,000,000 underlying Shares (S) | 0.29% |

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

Note:

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

## SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors or chief executives of the Company, as at 30 June 2013, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name | Name of corporation | Capacity | Aggregate number of ordinary shares | Approximate percentage of interest in the corporation |
|---|---|---|---|---|
| China Ruike Investment & Development Co., Ltd. | The Company | Beneficial owner | 257,803,625 (L) | 24.59% |
| Pope Investments LLC | The Company | Beneficial owner | 60,574,843 (L) | 5.78% |
| Pope Asset Management, LLC | The Company | Interest of controlled corporation | 60,574,843 (L) | 5.78% |
| William P. Wells | The Company | Interest of controlled corporation | 60,574,843 (L) | 5.78% |
| The China Fund, Inc. | The Company | Beneficial owner | 160,413,750 (L) | 15.30% |
| Martin Currie Inc. | The Company | Interest of controlled corporation | 160,413,750 (L) | 15.30% |
| Martin Currie Limited | The Company | Interest of controlled corporation | 160,413,750 (L) | 15.30% |

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

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the period from 1 January 2013 up to the date of this interim report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

As set out in note 33(b) to the unaudited condensed consolidated interim financial statements of this interim report, during the six months ended 30 June 2013, the Group had rental expenses paid to Mr. Cao Kuanping amounting to RMB1,680,000. As disclosed in the announcement dated 18 January 2013 published by the Company, 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.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has complied with the applicable code provisions in the Corporate Governance Code (the "Code"), as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2013 except with the following deviation.

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

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

Mr. Zhou Shuiwen, independent non-executive director, was unable to attend the 2013 annual general meeting held on 7 June 2013 as provided for in code provision A.6.7 due to other business engagement.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all Directors and the Directors have confirmed compliance with the required standard set out in the Model Code during the period from 1 January 2013 to 30 June 2013.

## CHANGES OF DIRECTORS

Mr. Lo Kwong Shun Wilson has been appointed as an Independent Non-executive Director, the chairman of the nomination committee, and a member of the audit committee and remuneration committee of the Board with effect from 17 July 2013.

Mr. Tan Bien Kiat has resigned as an Independent Non-Executive Director, the chairman of the nomination committee, and a member of the audit committee and remuneration committee of the Board with effect from 17 July 2013.

## AUDIT COMMITTEE

The Audit Committee of the Company comprises three members, all of whom are independent non-executive Directors, namely Mr. Tam Chun Chung, who possesses professional accounting qualifications, Mr. Zhou Shuiwen and Mr. Lo Kwong Shun Wilson. Mr. Tam Chun Chung is the Chairman of the Audit Committee. The Audit Committee has adopted the terms of reference in line with the Corporate Governance Code issued by the Stock Exchange. The Audit Committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 June 2013. In addition, the Company's auditor PricewaterhouseCoopers has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2013.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained a sufficient public float throughout the period from 1 January 2013 to 30 June 2013, and up to the date of this interim report.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2013.

On behalf of the Board

**Cao Kuanping**
*Chairman*

Hong Kong, 22 August 2013

# CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | Unaudited 30 June 2013 RMB'000 | Audited 31 December 2012 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | 7 | 23,165 | 17,355 |
| Prepayments for land use rights | 7 | — | 125,047 |
| Property, plant and equipment | 7 | 197,118 | 192,771 |
| Investment properties | 7 | 6,000 | 6,085 |
| Intangible assets | 8 | 38,659 | 39,363 |
| Deferred income tax assets | 9 | 135,481 | 92,288 |
| Receivables | 10 | 2,910 | — |
| | | 403,333 | 472,909 |
| **Current assets** | | | |
| Inventories | 11 | 547,794 | 387,160 |
| Trade and bills receivables | 12 | 623,525 | 437,130 |
| Prepayments, deposits and other receivables | 13 | 711,690 | 911,088 |
| Restricted bank deposits | 14 | 955,769 | 805,847 |
| Cash and cash equivalents | 15 | 123,803 | 75,198 |
| | | 2,962,581 | 2,616,423 |
| **Total assets** | | 3,365,914 | 3,089,332 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 16 | 7,162 | 7,162 |
| Reserves | | 730,240 | 835,853 |
| | | 737,402 | 843,015 |
| **Non-controlling interests in equity** | | 27,006 | 40,326 |
| **Total equity** | | 764,408 | 883,341 |

| | Note | Unaudited 30 June 2013 RMB'000 | Audited 31 December 2012 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 19 | 541,138 | 479,078 |
| Deferred income tax liabilities | 9 | 211 | 211 |
| Deferred government grants | 20 | 2,900 | — |
| | | 544,249 | 479,289 |
| **Current liabilities** | | | |
| Trade and bills payables | 17 | 659,356 | 570,410 |
| Accruals and other payables | 18 | 207,941 | 213,261 |
| Borrowings | 19 | 1,052,515 | 826,886 |
| Derivative financial instruments | | — | 1,007 |
| Current income tax liabilities | | 84,685 | 63,479 |
| Other current liabilities | 21 | 52,760 | 51,659 |
| | | 2,057,257 | 1,726,702 |
| **Total liabilities** | | 2,601,506 | 2,205,991 |
| **Total equity and liabilities** | | 3,365,914 | 3,089,332 |
| **Net current assets** | | 905,324 | 889,721 |
| **Total assets less current liabilities** | | 1,308,657 | 1,362,630 |

The notes on pages 27 to 64 are an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | Unaudited Six months ended 30 June 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Revenue | 22 | 1,316,196 | 1,163,958 |
| Cost of sales | 25 | (1,135,720) | (981,755) |
| **Gross profit** | | 180,476 | 182,203 |
| Other income | 23 | 7,185 | 6,857 |
| Other gains/(losses) - net | 24 | 3,123 | (938) |
| Selling and marketing expenses | 25 | (81,884) | (85,629) |
| Administrative expenses | 25 | (221,085) | (71,448) |
| **Operating (loss)/profit** | | (112,185) | 31,045 |
| Finance income | 26 | 24,780 | 7,706 |
| Finance costs | 26 | (38,503) | (24,321) |
| Finance costs - net | 26 | (13,723) | (16,615) |
| **(Loss)/profit before income tax** | | (125,908) | 14,430 |
| Income tax credit/(expense) | 27 | 21,473 | (9,696) |
| **(Loss)/profit for the period** | | (104,435) | 4,734 |
| **Attributable to:** | | | |
| – Equity holders of the Company | | (103,987) | 2,565 |
| – Non-controlling interests | | (448) | 2,169 |
| | | (104,435) | 4,734 |
| (Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company (expressed in RMB cents per share) | | | |
| – Basic | 28 | (9.92) | 0.24 |
| – Diluted | 28 | (8.62) | 0.23 |
| Dividends | 29 | — | — |

The notes on pages 27 to 64 are an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited<br>Six months ended 30 June | |
|---|---|---|
| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
| **(Loss)/profit for the period** | **(104,435)** | 4,734 |
| **Other comprehensive income or loss** | **—** | — |
| **Total comprehensive (loss)/income for the period** | **(104,435)** | 4,734 |
| **Attributable to:** | | |
| – Equity holders of the Company | **(103,987)** | 2,565 |
| – Non-controlling interests | **(448)** | 2,169 |
| | **(104,435)** | 4,734 |

The notes on pages 27 to 64 are an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Unaudited<br>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 2012** | | 7,162 | 827,784 | 28,007 | (62,524) | 264,783 | 1,065,212 | 40,938 | 1,106,150 |
| Profit/Total comprehensive income for the six months ended 30 June 2012 | | – | – | – | – | 2,565 | 2,565 | 2,169 | 4,734 |
| Dividend paid by a subsidiary to non-controlling interests | | – | – | – | – | – | – | (100) | (100) |
| Pre-IPO Option Scheme – value of employee services | 25 | – | – | – | 2,682 | – | 2,682 | – | 2,682 |
| **Balance at 30 June 2012** | | 7,162 | 827,784 | 28,007 | (59,842) | 267,348 | 1,070,459 | 43,007 | 1,113,466 |
| **Balance at 1 January 2013** | | 7,162 | 827,784 | 28,007 | (58,034) | 38,096 | 843,015 | 40,326 | 883,341 |
| Loss/Total comprehensive loss for the six months ended 30 June 2013 | | – | – | – | – | (103,987) | (103,987) | (448) | (104,435) |
| Dividend paid by a subsidiary to non-controlling interests | | – | – | – | – | – | – | (100) | (100) |
| Transaction with non-controlling interests | 32 | – | – | – | (2,228) | – | (2,228) | (12,772) | (15,000) |
| Pre-IPO Option Scheme – value of employee services | 25 | – | – | – | 602 | – | 602 | – | 602 |
| **Balance at 30 June 2013** | | 7,162 | 827,784 | 28,007 | (59,660) | (65,891) | 737,402 | 27,006 | 764,408 |

The notes on pages 27 to 64 are an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Note | Unaudited<br>Six months ended 30 June<br>2013<br>RMB'000 | <br><br>2012<br>RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash used in operations | | (92,286) | (161,252) |
| Interest paid | | (24,237) | (22,720) |
| Income tax paid | | (514) | (16,954) |
| Net cash used in operating activities | | (117,037) | (200,926) |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | | (24,294) | (10,588) |
| Purchase of land use rights | 7 | (6,049) | — |
| Proceeds from disposal of property, plant and equipment | | 297 | 240 |
| Interest received | | 5,864 | 4,409 |
| Net cash used in investing activities | | (24,182) | (5,939) |
| **Cash flows from financing activities:** | | | |
| Proceeds from bank borrowings | 19 | 807,411 | 626,519 |
| Repayments of bank borrowings | 19 | (513,239) | (182,000) |
| Restricted bank deposits pledged for borrowings | 14 | (87,701) | (87,495) |
| Dividend paid by a subsidiary to non-controlling interests | | (100) | (100) |
| Transaction with non-controlling interests | 32 | (15,000) | — |
| Net cash generated from financing activities | | 191,371 | 356,924 |
| **Increase in cash and cash equivalents** | | 50,152 | 150,059 |
| Cash and cash equivalents at beginning of the period | 15 | 75,198 | 123,715 |
| Exchange differences on cash and cash equivalents | | (1,547) | (329) |
| Cash and cash equivalents at end of the period | 15 | 123,803 | 273,445 |

The notes on pages 27 to 64 are an integral part of these condensed consolidated interim financial statements.

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

## 1 GENERAL INFORMATION

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

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

The Group's businesses were primarily carried out by Yangzhou Huiyin Household Appliance (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 Reorganisation has been accounted for as a reverse acquisition.

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

## 2 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2013 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

These condensed consolidated interim financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated and were approved by the Company's board of directors on 22 August 2013.

These condensed consolidated interim financial statements have not been audited.

## 3 ACCOUNTING POLICIES

Except as stated below for new account items or which is specific for the interim period, the accounting policies applied are consistent with those used for and described in the annual consolidated financial statements of the Company for the year ended 31 December 2012.

(a) Land use rights acquired for property development for sale

Such land use rights are included in current assets as inventories and are measured at the lower of cost and net realisable value unless they fall out of the normal operating cycle in which case they are classified as non-current assets. Construction and other costs for the property development including any capitalised borrowing costs incurred during the development period are also recorded as part of the inventory cost.

(b) Government grants

Government grants relating to non-current assets are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

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

**New/revised standards, amendments and interpretations to existing standards mandatory for the financial year beginning on 1 January 2013 that are relevant to the Group's operations**

- 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 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.

- HKFRS 12 'Disclosure 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.

- 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.

The adoption of the above new standards and amendment starting from 1 January 2013 did not give rise to any significant impact on the Group's results of operations and financial position for the six months ended 30 June 2013.

The Group has not early adopted any new accounting and financial reporting standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial year ending on 31 December 2013.

## 4 ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 5.1 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 condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2012.

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

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### 5.2 Liquidity risk

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

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

| | Within 3 months RMB'000 | Between 3 to 6 months RMB'000 | Between 6 to 12 months RMB'000 | Between 1 to 2 years RMB'000 | Between 2 to 3 years RMB'000 |
|---|---|---|---|---|---|
| **As at 30 June 2013** | | | | | |
| Borrowings (Note 19) | 467,624 | 308,317 | 276,574 | 160,646 | 390,000 |
| Interest payments on borrowings (note) | 33,953 | 4,652 | 5,219 | 26,432 | 24,570 |
| Trade and bills payables (Note 17) | 547,063 | 112,293 | — | — | — |
| Accruals and other payables, excluding the advances from customers, value added tax and other tax payables and salary and welfare payables (Note 18) | 98,748 | — | — | — | — |
| | 1,147,388 | 425,262 | 281,793 | 187,078 | 414,570 |
| **As at 31 December 2012** | | | | | |
| Borrowings (Note 19) | 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 17) | 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 18) | 73,298 | — | — | — | — |
| | 528,518 | 640,177 | 341,350 | 126,900 | 414,570 |

Note:

The interest payments on borrowings are calculated based on borrowings held as at 30 June 2013 and 31 December 2012 respectively without taking into account of future borrowings.

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### 5.3 Fair value estimation

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

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

— Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);

— Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of contingent consideration arising from the business combination (Note 21) are measured at fair value by Level 3.

### 5.4 Valuation techniques used to derive Level 2 fair values

Level 2 derivative financial instruments comprise forward foreign exchange contracts which had all been settled as at 30 June 2013. These forward foreign exchange contracts had been fair valued using forward exchange rates that are quoted in an active market. Losses from re-measurement and settlement of forward foreign exchange contracts amounted to RMB1,362,000 for the six months ended 30 June 2013 (Note 24).

### 5.5 Fair value measurements using significant unobservable inputs (Level 3)

| | Contingent consideration RMB'000 |
|---|---|
| Opening balance at 1 January 2013 | 51,659 |
| Losses recognised in profit and loss | 1,101 |
| Closing balance at 30 June 2013 | 52,760 |
| Change in unrealised losses for the period included in profit or loss for assets/liabilities held at the end of the reporting period, under 'Other losses' (Note 24) | 1,101 |

The discount rate used to compute the fair value is 23%. If the change in the discount rate for the contingent consideration shifted +/- 2%, the impact on profit or loss would be RMB60,000. The higher the discount rate, the lower the fair value.

### 5.6 Group's valuation processes

The Group's finance department includes a team that performs the valuations of financial assets and liabilities required for financial reporting purposes, including Level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates.

The main Level 3 input used by the Group pertains to the discount rate for contingent consideration. It is estimated based on the market conditions.

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### 5.7 Fair values of financial assets and liabilities measured at amortised cost

As at 30 June 2013, the fair values of all financial assets and liabilities approximate their carrying amounts.

## 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.

The unaudited segment results for the six months ended 30 June 2013 are as follows:

| | Retail RMB'000 | Bulk distribution RMB'000 | All other segments RMB'000 | Unallocated* RMB'000 | Group RMB'000 |
|---|---|---|---|---|---|
| Segment revenue | 462,923 | 1,282,255 | 4,868 | – | 1,750,046 |
| Inter-segment revenue | – | (433,850) | – | – | (433,850) |
| Revenue from external customers | 462,923 | 848,405 | 4,868 | – | 1,316,196 |
| Operating profit/(loss) | (34,928) | (76,027) | 1,686 | (2,916) | (112,185) |
| Finance costs - net | | | | | (13,723) |
| Loss before income tax | | | | | (125,908) |
| Income tax credit | | | | | 21,473 |
| Loss for the period | | | | | (104,435) |
| Other segment items are as follows: | | | | | |
| Capital expenditure | 11,556 | 10,665 | – | – | 22,221 |
| Depreciation charge | 7,790 | 3,775 | 35 | – | 11,600 |
| Amortisation charge | 69 | 874 | – | – | 943 |

## 6 SEGMENT INFORMATION *(continued)*

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

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

* Unallocated mainly represented the expenses incurred by 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)*

Unaudited segment assets and liabilities as at 30 June 2013 are as follows:

| | Retail RMB'000 | Bulk distribution RMB'000 | All other segments RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Segment assets | 307,461 | 2,667,706 | 251,774 | 3,226,941 |
| Unallocated assets | | | | 138,973 |
| Total assets | | | | 3,365,914 |
| Segment liabilities | 150,046 | 760,385 | 8,013 | 918,444 |
| Unallocated liabilities | | | | 1,683,062 |
| Total liabilities | | | | 2,601,506 |

The audited segment assets and liabilities as at 31 December 2012 are as follows:

| | Retail RMB'000 | Bulk distribution RMB'000 | All other segments RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| 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 consist primarily of property, plant and equipment, investment properties, land use rights, intangible assets, inventories, trade and bills receivables, prepayments, deposits and other receivables and operating cash and mainly exclude deferred tax assets and corporate assets.

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

Capital expenditure comprises additions to property, plant and equipment, investment properties, land use rights and intangible assets, including additions resulting from acquisitions through business combinations.

## 7 CAPITAL EXPENDITURE OTHER THAN INTANGIBLE ASSETS

| | Land use rights<br>RMB'000 | Property, plant and equipment<br>RMB'000 | Investment properties<br>RMB'000 | Prepayment for land use rights (i)<br>RMB'000 |
|---|---|---|---|---|
| **Six months ended 30 June 2012** | | | | |
| Opening net book amount at 1 January 2012 | 17,792 | 186,609 | 23,456 | 125,047 |
| Additions | — | 10,455 | — | — |
| Transfer in/(out) | — | (4,659) | 4,659 | — |
| Disposals | — | (294) | — | — |
| Amortisation and depreciation (Note 25) | (339) | (12,658) | (351) | — |
| Closing net book amount at 30 June 2012 | 17,453 | 179,453 | 27,764 | 125,047 |
| **Six months ended 30 June 2013** | | | | |
| Opening net book amount at 1 January 2013 | 17,355 | 192,771 | 6,085 | 125,047 |
| Additions | 6,049 | 16,172 | — | 118,056 |
| Transfer out to inventories (Note 11) | — | — | — | (243,103) |
| Disposals | — | (310) | — | — |
| Amortisation and depreciation (Note 25) | (239) | (11,515) | (85) | — |
| Closing net book amount at 30 June 2013 | 23,165 | 197,118 | 6,000 | — |

Note:

(i) In January 2011, the Group succeeded in the bid to acquire the land use rights of a plot of land with an approximate total site area of 26,071 square meters located in Yangzhou City ("Land Parcel") via the public tender auction and listing-for-sale held by Yangzhou Municipal Land Bureau at the total consideration of RMB235,420,000. In accordance with the terms and conditions in the land purchase agreement, a deposit of RMB117,710,000 had been paid by the Group during the 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, and may include a small portion to be used as a 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 (Note 32).

The prepayments for land use rights as at 30 June 2012 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 paid the rest of the consideration of RMB117,710,000 and other related expenses of RMB346,000 and obtained the land use rights in February 2013. The balance was then transferred to "Inventories" (Note 11).

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

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

As at 30 June 2013, land use rights and buildings with a net book value of RMB12,163,000 and RMB124,995,000 respectively (31 December 2012: RMB12,302,000 and RMB123,422,000 respectively) together with certain restricted bank deposits (Note 14) had been pledged as collateral for the Group's bank acceptable bills of RMB12,200,000 (31 December 2012: RMB10,000,000) (Note 17) and bank borrowings of RMB38,000,000 (31 December 2012: RMB38,000,000) (Note 19).

As at 30 June 2013, land use rights, buildings and investment properties with a net book value of RMB4,853,000, RMB29,625,000 and RMB6,000,000 respectively together with property under development – leasehold land to be developed (Note 11) had been pledged as collateral for the Group's medium-term notes of RMB380,492,000 (Note 19).

As at 31 December 2012, land use rights, buildings and investment properties with a net book value of RMB5,053,000, RMB26,552,000 and RMB6,085,000 respectively together with certain restricted bank deposits (Note 14) had been pledged as collateral for the Group's medium-term notes of RMB378,510,000 (Note 19).

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

The Group chooses the cost model to account for its investment properties and therefore the difference between the fair value and carrying amount of the investment properties and any changes in fair value are not accounted for in these interim financial statements. The carrying amount of the investment properties would have been RMB7,220,000 had they been stated at fair values as of 30 June 2013 (31 December 2012: RMB7,033,000). The fair values of the investment properties as at 30 June 2013 and 21 December 2012 were based on a review performed by the management of the Group using the same method adopted by an independent and professional qualified valuer in arriving at the 31 December 2011 valuation. 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.

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

## 8 INTANGIBLE ASSETS

| | Goodwill RMB'000 | Distribution agreement RMB'000 | Non-compete agreement RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Six months ended 30 June 2012** | | | | | |
| Opening net book amount at 1 January 2012 | 45,723 | 20,634 | 3,900 | 3,098 | 73,355 |
| Amortisation (Note 25) | — | (1,146) | (475) | (395) | (2,016) |
| Impairment charge (Note 25) | (10,000) | — | — | — | (10,000) |
| Closing net book amount at 30 June 2012 | 35,723 | 19,488 | 3,425 | 2,703 | 61,339 |
| **Six months ended 30 June 2013** | | | | | |
| Opening net book amount at 1 January 2013 | 34,060 | — | 2,950 | 2,353 | 39,363 |
| Amortisation (Note 25) | — | — | (475) | (229) | (704) |
| Closing net book amount at 30 June 2013 | 34,060 | — | 2,475 | 2,124 | 38,659 |

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

### Impairment tests for goodwill

Goodwill is allocated to the Group's CGU identified according to operating segment. Goodwill of RMB14,163,000 is allocated to the CGU of Nanjing Chaoming Technology Development Co., Ltd. ("Nanjing Chaoming") and RMB34,060,000 is allocated to the CGU of Anhui Four Seas Huiyin Household Appliances Sales Co., Ltd. (Previously known as "Huainan Four Seas Huiyin Household Appliances Co., Ltd.") ("Huainan Four Seas").

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

## 8 INTANGIBLE ASSETS *(continued)*

### Impairment tests for goodwill *(continued)*

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

No impairment charge arose during the course of the six months ended 30 June 2013 as impairment on the goodwill had been fully provided for as at 31 December 2012 (Six months ended 30 June 2012: Rmb10,000,000).

In year 2012, considering the actual business performance of Nanjing Chaoming since the acquisition and severe market environment, the management of the Group believed 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 | | | | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **After 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 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.

## 8 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 30 June 2013 and 31 December 2012 are as follows:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **After 2017** |
| 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 growth rates of existing scale used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

No impairment charge arose during the course of the six months ended 30 June 2013 (Six months ended 30 June 2012: 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 was provided in the second half year of 2012, and the carrying amount was reduced to zero as at 31 December 2012 accordingly.

## 9 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The 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 | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| Deferred income tax assets | | |
| – to be recovered within 12 months | **16,431** | 15,719 |
| – to be recovered after more than 12 months | **119,050** | 76,569 |
| | **135,481** | 92,288 |
| Deferred income tax liabilities | | |
| – to be settled within 12 months | **211** | 211 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| At beginning of the period | **92,077** | 24,791 |
| Recognised in the consolidated income statement (Note 27) | **43,193** | 5,152 |
| At end of the period | **135,270** | 29,943 |

## 9 DEFERRED INCOME TAX *(continued)*

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

### Deferred income tax assets

| | Tax losses RMB'000 | Accrued volume discounts to the distributors and franchisees RMB'000 | Accrued expenses RMB'000 | Unrealised profits elimination RMB'000 | Provisions RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2012 | 11,281 | 200 | 3,043 | 1,072 | 9,522 | 5,043 | 30,161 |
| Recognised in the consolidated income statement | 1,803 | 554 | (883) | 962 | 2,154 | 326 | 4,916 |
| At 30 June 2012 | 13,084 | 754 | 2,160 | 2,034 | 11,676 | 5,369 | 35,077 |
| At 1 January 2013 | 11,211 | 2,529 | 3,078 | 3,108 | 70,060 | 2,302 | 92,288 |
| Recognised in the consolidated income statement | (1,547) | (81) | 513 | 1,269 | 43,078 | (39) | 43,193 |
| At 30 June 2013 | 9,664 | 2,448 | 3,591 | 4,377 | 113,138 | 2,263 | 135,481 |

### Deferred income tax liabilities

| | Withholding tax on unremitted earnings of subsidiaries RMB'000 | Distribution agreement RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2012 | 211 | 5,159 | 5,370 |
| Recognised in the consolidated income statement | 51 | (287) | (236) |
| At 30 June 2012 | 262 | 4,872 | 5,134 |
| At 1 January 2013 and 30 June 2013 | 211 | — | 211 |

## 10 RECEIVABLES

In June 2013, Yangzhou Huiyin entered into an agreement to lend RMB 2,910,000 to a third party with the duration of 2 years. Interest is charged at 8% per annum.

## 11 INVENTORIES

| | As at | |
|---|---|---|
| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
| Merchandise held for resale | 311,853 | 395,855 |
| Provision for obsolescence | (8,448) | (9,936) |
| | 303,405 | 385,919 |
| Property under development – leasehold land to be developed | 243,103 | — |
| Low value consumables | 1,286 | 1,241 |
| Total | 547,794 | 387,160 |

As at 30 June 2013, property under development – leasehold land to be developed with a net book value of RMB243,103,000 together with certain land use rights, buildings and investment properties (Note 7) with a total net book value of RMB40,478,000 had been pledged as collateral for the Group's medium-term notes of RMB380,492,000 (Note 19).

## 12 TRADE AND BILLS RECEIVABLES

| | As at | |
|---|---|---|
| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
| Trade receivables | 154,894 | 120,715 |
| Less: Provision for impairment | (1,756) | (2,126) |
| Trade receivables, net | 153,138 | 118,589 |
| Bills receivable | 470,387 | 318,541 |
| Trade and bills receivables, net | 623,525 | 437,130 |

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.

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

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

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| 0 - 30 days | **48,065** | 54,569 |
| 31 - 90 days | **87,050** | 51,749 |
| 91 - 365 days | **16,408** | 11,175 |
| 1 year - 2 years | **2,775** | 2,643 |
| 2 years - 3 years | **596** | 579 |
| Total | **154,894** | 120,715 |

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

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

As at 30 June 2013, bills receivable with a carrying amount of RMB4,303,000 (31 December 2012: RMB2,800,000) had been pledged as collateral for the Group's bank acceptance bills of RMB4,303,000 (31 December 2012: RMB2,800,000) (Note 17).

As at 30 June 2013, bills receivable with a carrying amount of RMB325,500,000 (31 December 2012: RMB222,240,000) were discounted to the bank with recourse, the proceeds of RMB323,029,000 (31 December 2012: RMB218,728,000) received from the bank were recorded as "borrowings" accordingly (Note 19).

## 13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| Advance payments to suppliers | **290,308** | 426,482 |
| Rebates receivable from suppliers, net of provision | **352,226** | 405,925 |
| Prepaid rentals | **14,132** | 16,665 |
| Deposits | **5,678** | 11,888 |
| Prepaid consulting fees | **557** | 800 |
| Other prepayments | **2,612** | 675 |
| Other receivables from third parties | | |
| – Value added tax recoverable | **25,883** | 39,987 |
| – Interests receivable from banks | **15,967** | 3,969 |
| – Staff advances | **1,224** | 2,282 |
| – Amount paid on behalf of a supplier | **1,161** | 536 |
| – Others | **1,942** | 1,879 |
| | **711,690** | 911,088 |

Provision of RMB174,171,000 (Six months ended 30 June 2012: RMB8,905,000) for supplier rebates receivable had been recognised during the period. The slow settlement of supplier rebates receivable had led to a worsen ageing and a higher provision for impairment accordingly since the second half year of 2012. As at 30 June 2013, the balance of provision for supplier rebates receivable was RMB442,347,000 (31 December 2012: RMB268,176,000).

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.

## 14 RESTRICTED BANK DEPOSITS

As at 30 June 2013, restricted bank deposits of RMB289,805,000 (31 December 2012: RMB223,244,000) had been pledged as collateral for the Group's bank acceptance bills of RMB589,710,000 (31 December 2012: RMB508,009,000) (Note 17).

As at 30 June 2013, restricted bank deposits of RMB662,304,000 (31 December 2012: RMB474,603,000) had been pledged as collateral for the Group's bank borrowings of US$ 95,900,000, equivalent to RMB592,537,000, and RMB124,595,000 (31 December 2012: US$ 65,900,000, equivalent to RMB414,214,000, and RMB16,000,000)(Note 19).

As at 30 June 2013, restricted bank deposits of RMB3,660,000 (31 December 2012: RMB3,000,000), together with certain land use rights and buildings (Note 7) with a total net book amount of RMB137,158,000 (31 December 2012: RMB135,724,000) had been pledged as collateral for the Group's bank acceptance bills of RMB12,200,000 (31 December 2012: RMB10,000,000) (Note 17) and bank borrowings of RMB38,000,000 (31 December 2012: RMB38,000,000) (Note 19).

As at 31 December 2012, restricted bank deposits of RMB100,000,000, together with certain land use rights, buildings and investment properties (Note 7) 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 19).

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.

All restricted bank deposits are denominated in RMB and their carrying amounts approximate their fair values as at the balance sheet date. The weighted average interest rate per annum on restricted bank deposits was 3.4% at 30 June 2013 (31 December 2012: 3.1%).

## 15 CASH AND CASH EQUIVALENTS

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| Cash on hand | | |
| – denominated in RMB | **332** | 435 |
| Cash at bank | | |
| – denominated in RMB | **121,092** | 68,906 |
| – denominated in HK$ | **264** | 82 |
| – denominated in US$ | **2,115** | 5,775 |
| | **123,471** | 74,763 |
| | **123,803** | 75,198 |

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

| | As at | |
|---|---|---|
| | **30 June 2013** | 31 December 2012 |
| RMB | **0.350%** | 0.350% |
| HK$ | **0.001%** | 0.001% |
| US$ | **0.001%** | 0.001% |

## 16 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 |
| **Six months ended 30 June 2012 and 30 June 2013** | | | | |
| **Authorised:** | | | | |
| At 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013 | US$0.001 | 2,000,000,000 | 2,000,000 | 10,598 |
| **Issued and fully paid:** | | | | |
| At 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013 | 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 30 June 2013, all 50,000,000 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 directors of the Company may, under the Share Option Scheme, grant options to any executive, non-executive or independent non-executive directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiaries or associated companies. The implementation of the Share Option Scheme is subject to a number of conditions being met, including the successful Listing of the Company.

No option has been granted under the Share Option Scheme as at 30 June 2013.

## 17 TRADE AND BILLS PAYABLES

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| Trade payables | **53,143** | 49,601 |
| Bills payable | **606,213** | 520,809 |
| Total | **659,356** | 570,410 |

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 | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| 0 - 30 days | **21,849** | 25,996 |
| 31 - 90 days | **18,872** | 13,375 |
| 91 - 365 days | **8,200** | 6,837 |
| 1 year - 2 years | **2,368** | 2,716 |
| 2 years - 3 years | **1,854** | 677 |
| | **53,143** | 49,601 |

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

As at 30 June 2013, restricted bank deposits of RMB289,805,000 (31 December 2012: RMB223,244,000) (Note 14) had been pledged as collateral for the Group's bank acceptance bills of RMB589,710,000 (31 December 2012: RMB508,009,000).

As at 30 June 2013, restricted bank deposits of RMB3,660,000 (31 December 2012: RMB3,000,000) (Note 14), together with certain land use rights and buildings (Note 7) with a total net book amount of RMB137,158,000 (31 December 2012: RMB135,724,000) had been pledged as collateral for the Group's bank acceptance bills of RMB12,200,000 (31 December 2012: RMB10,000,000) and bank borrowings of RMB38,000,000 (31 December 2012: RMB38,000,000) (Note 19).

As at 30 June 2013, bills receivable with a carrying amount of RMB4,303,000 (31 December 2012: RMB2,800,000) (Note 12) had been pledged as collateral for the Group's bank acceptance bills of RMB4,303,000 (31 December 2012: RMB2,800,000).

## 18 ACCRUALS AND OTHER PAYABLES

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| Advances from customers | **75,514** | 105,527 |
| Salary and welfare payables | **19,028** | 18,766 |
| Accrued expenses | **30,124** | 14,908 |
| Payables for purchase of equipment | **404** | 8,526 |
| Value added tax and other tax payables | **14,651** | 15,670 |
| Accrued volume discounts to distributors | **9,792** | 10,117 |
| Advance from a third party, interest free | **50,000** | 30,000 |
| Deposits | **4,005** | 3,955 |
| Amount due to a director (Note 33(d)) | **463** | 463 |
| Others | **3,960** | 5,329 |
| Total | **207,941** | 213,261 |

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.

## 19 BORROWINGS

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| **Non-current** | | |
| Bank borrowings (a) | **160,646** | 100,568 |
| Medium-term notes (b) | **380,492** | 378,510 |
| | **541,138** | 479,078 |
| **Current** | | |
| Bank borrowings (a) | **1,052,515** | 826,886 |
| | **1,593,653** | 1,305,964 |

## 19 BORROWINGS *(continued)*

Movement in borrowings is analysed as below:

| | Bank borrowings RMB'000 | Medium-term notes RMB'000 |
|---|---|---|
| **Six months ended 30 June 2012** | | |
| Opening amount as at 1 January 2012 | 599,089 | — |
| Proceeds from bank borrowings | 626,519 | — |
| Repayments of bank borrowings | (182,000) | — |
| Closing amount as at 30 June 2012 | 1,043,608 | — |
| **Six months ended 30 June 2013** | | |
| Opening amount as at 1 January 2013 | **927,454** | **378,510** |
| Proceeds from bank borrowings | **807,411** | **—** |
| Repayments of bank borrowings | **(513,239)** | **—** |
| Interest expenses on medium-term notes | **—** | **1,982** |
| Exchange differences | **(8,465)** | **—** |
| Closing amount as at 30 June 2013 | **1,213,161** | **380,492** |

### (a) Bank borrowings

At 30 June 2013 and 31 December 2012, the Group's bank borrowings were repayable as follows:

| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|
| Within 1 year | **1,052,515** | 826,886 |
| Between 1 and 2 years | **160,646** | 100,568 |
| | **1,213,161** | 927,454 |

As at 30 June 2013, restricted bank deposits of RMB3,660,000 (31 December 2012: RMB3,000,000) (Note 14), together with certain land use rights and buildings (Note 7) with a total net book amount of RMB137,158,000 (31 December 2012: RMB135,724,000) had been pledged as collateral for the Group's bank acceptance bills of RMB12,200,000 (31 December 2012: RMB10,000,000) (Note 17) and bank borrowings of RMB38,000,000 (31 December 2012: RMB38,000,000).

As at 30 June 2013, restricted bank deposits of RMB662,304,000 (31 December 2012: RMB474,603,000) (Note 14) had been pledged as collateral for the Group's bank borrowings of US$ 95,900,000, equivalent to RMB592,537,000, and RMB124,595,000 (31 December 2012: US$ 65,900,000, equivalent to RMB414,214,000, and RMB16,000,000).

## 19 BORROWINGS *(continued)*

### (a) Bank borrowings *(continued)*

As at 30 June 2013, bills receivable with a carrying amount of RMB325,500,000 (31 December 2012: RMB222,240,000) (Note 12) were discounted to the bank with recourse, the proceeds of RMB323,029,000 (31 December 2012: RMB218,728,000) received from the bank were recorded as "borrowings" accordingly.

As at 30 June 2013, bank borrowings amounting to RMB135,000,000 (31 December 2012: RMB240,512,000) were unsecured.

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:

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| 6 months or less | **1,032,515** | 833,171 |
| 6-12 months | **180,646** | 94,283 |
| | **1,213,161** | 927,454 |

The carrying amount of non-current bank borrowings and current bank borrowings approximates their fair value at the end of the reporting period.

The carrying amounts of bank borrowings are as denominated in the following currencies:

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| **Non-current** | | |
| – US dollar | **160,646** | 100,568 |
| **Current** | | |
| – RMB | **620,624** | 422,728 |
| – US dollar | **431,891** | 404,158 |
| | **1,052,515** | 826,886 |
| | **1,213,161** | 927,454 |

As at 30 June 2013, bank borrowings with the carrying amounts of RMB1,032,515,000 (31 December 2012: RMB833,171,000) are of floating rates and bank borrowings with the carrying amounts of RMB180,646,000 (31 December 2012: RMB94,283,000) are of fixed rates.

## 19 BORROWINGS *(continued)*

### (a) Bank borrowings *(continued)*

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

| | As at | |
|---|---|---|
| | **30 June 2013** | 31 December 2012 |
| **Non-current** | **1.98%** | 2.11% |
| **Current** | **3.84%** | 3.76% |

### (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.

As at 30 June 2013 and 31 December 2012, the Group's medium-term notes were repayable between 2 and 3 years.

As at 30 June 2013, land use rights, buildings, investment properties (Note 7) and property under development – leasehold land to be developed (Note 11) with a total net book amount of RMB283,581,000 had been pledged as collateral for the Group's medium-term notes.

As at 31 December 2012, restricted bank deposits of RMB100,000,000 (Note 14), together with certain land use rights, buildings and investment properties (Note 7) with a total net book amount of RMB37,690,000 had been pledged as collateral for the Group's 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 Huiyin.

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

## 20 DEFERRED GOVERNMENT GRANTS

Deferred government grants comprise government subsidy of RMB 2,910,000 granted by the Management Committee of Jiangsu Yangzhou Hanjiang Economics Development Zone in respect of the Group's storage and logistic development project. Such deferred government grants are amortised on a straight-line basis over 50 years.

## 21 CONTINGENT CONSIDERATION LIABILITIES

| | Contingent consideration liabilities arising from business combination RMB'000 |
|---|---|
| At 1 January 2013 | 51,659 |
| Changes in fair value (Note 24) | 1,101 |
| At 30 June 2013 | 52,760 |

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 the three months immediately preceding the date of the issue and allotment of such Shares.

During the six months ended 30 June 2013, there was an increase in fair values of RMB1,101,000 (Note 24) recognised as losses in the consolidated income statement for the contingent consideration arrangement. As at 30 June 2013, the fair value of the contingent consideration liabilities of RMB52,760,000 (31 December 2012: RMB51,659,000) 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.

## 22 REVENUE

Turnover of the Group comprises revenues recognised as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2013 | 2012 |
| | RMB'000 | RMB'000 |
| Sales of goods | | |
| – Retail | 462,923 | 403,703 |
| – Bulk distribution | 848,405 | 754,682 |
| including: | | |
| Sales to franchisees | 253,103 | 216,086 |
| Sales to other retailers and distributors | 595,302 | 538,596 |
| | 1,311,328 | 1,158,385 |
| Rendering of services | | |
| – Maintenance service | 2,988 | 295 |
| – Installation servicew | 1,880 | 5,278 |
| | 4,868 | 5,573 |
| Total revenue | 1,316,196 | 1,163,958 |

## 23 OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | 2013 | 2012 |
| | RMB'000 | RMB'000 |
| Income from suppliers on promotion activities | 4,738 | 4,311 |
| Subsidies of transportation and old merchandise arising from the Change of the Old for New Program | – | 1,145 |
| Rental income | 2,308 | 668 |
| Government subsidies | 139 | 733 |
| | 7,185 | 6,857 |

## 24 OTHER GAINS/(LOSSES) - NET

| | Six months ended 30 June | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Net exchange gains on monetary receivables and payables | — | 10 |
| Fair value losses on contingent consideration liabilities (Note 21) | (1,101) | (894) |
| Losses on disposal of property, plant and equipment, net | (13) | (54) |
| Insurance claim income for merchandises destroyed in a fire accident (i) | 6,407 | — |
| Accrued compensation to suppliers for losses caused by a fire accident | (808) | — |
| Losses from re-measurement and settlement of forward foreign exchange contracts | (1,362) | — |
| | 3,123 | (938) |

Note:

(i) The insurance claim income relates to merchandises that have been destroyed by fire in an accident. In April 2013, the relevant insurance claim has been received by the Group.

## 25 EXPENSES BY NATURE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Cost of merchandise before deducting supplier rebates | **1,434,875** | 1,282,657 |
| Supplier rebates | **(299,738)** | (303,079) |
| Taxes and levies on main operations | **2,071** | 2,249 |
| Employee benefit expenses - including the directors' emoluments | **35,014** | 37,914 |
| Pre-IPO Option Scheme expenses | **602** | 2,682 |
| Service charges | **2,681** | 3,093 |
| Operating lease expenses in respect of buildings and warehouses | **31,398** | 32,358 |
| Promotion and advertising expenses | **9,599** | 15,024 |
| Amortisation of land use rights (Note 7) | **239** | 339 |
| Depreciation of property, plant and equipment (Note 7) | **11,515** | 12,658 |
| Depreciation of investment properties (Note 7) | **85** | 351 |
| Amortisation of intangible assets (Note 8) | **704** | 2,016 |
| Utilities and telephone expenses | **3,974** | 6,077 |
| Transportation expenses | **6,995** | 4,600 |
| Entertainment fees | **2,979** | 1,915 |
| Travelling expenses | **1,632** | 2,155 |
| Office expenses | **1,025** | 1,254 |
| Reversal of provision for obsolescence on inventories (Note 11) | **(1,488)** | (72) |
| (Reversal)/ accrual of provision for impairment on receivables (Note 12) | **(370)** | 149 |
| Impairment loss against goodwill (Note 8) | **—** | 10,000 |
| Provision for supplier rebates receivable (Note 13) | **174,171** | 8,905 |
| Property tax and other taxes | **2,534** | 1,778 |
| Auditor's remuneration | **1,525** | 1,655 |
| Bank charges | **4,506** | 4,426 |
| Consulting expenses | **830** | 997 |
| Others | **11,331** | 6,731 |
| **Total of cost of sales, selling and marketing expenses and administrative expenses** | **1,438,689** | 1,138,832 |

## 26 FINANCE INCOME AND COSTS

| | Six months ended 30 June | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Finance income | | |
| – Interest income on bank deposits | 17,862 | 7,706 |
| – Net foreign exchange gains on cash and cash equivalents and bank borrowings | 6,918 | — |
| | 24,780 | 7,706 |
| Finance costs | | |
| – Interest expenses on discounting of bills receivable | (3,675) | — |
| – Interest expenses on bank borrowings | (20,562) | (23,992) |
| – Interest expenses on medium-term notes | (14,266) | — |
| – Net foreign exchange losses on cash and cash equivalents and bank borrowings | — | (329) |
| | (38,503) | (24,321) |
| Finance costs - net | (13,723) | (16,615) |

## 27 INCOME TAX (CREDIT)/EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | 2013 | 2012 |
| | RMB'000 | RMB'000 |
| PRC enterprise and withholding income taxes | | |
| – Current income tax | 21,720 | 14,848 |
| – Deferred income tax (Note 9) | (43,193) | (5,152) |
| | (21,473) | 9,696 |

### (a) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the six months ended 30 June 2013 (30 June 2012: 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 six months ended 30 June 2013 as its PRC subsidiaries did not earn any profit during the period (30 June 2012: 10%).

## 28 (LOSS)/EARNINGS PER SHARE

### (a) Basic

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

| | Six months ended 30 June | |
|---|---|---|
| | 2013 | 2012 |
| (Loss) /profit attributable to equity holders of the Company (RMB' 000) | (103,987) | 2,565 |
| Weighted average number of ordinary shares in issue (thousand) | 1,048,342 | 1,048,342 |
| Basic (loss)/earnings per share (RMB cents) | (9.92) | 0.24 |

### (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.

| | Six months ended 30 June | |
|---|---|---|
| | 2013 | 2012 |
| (Loss) /profit attributable to equity holders of the Company (RMB' 000) | (103,987) | 2,565 |
| 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) | 157,653 | 88,340 |
| Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousand) | 1,205,995 | 1,136,682 |
| Diluted (loss)/earnings per share (RMB cents) | (8.62) | 0.23 |

## 29 DIVIDENDS

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2013 (30 June 2012: Nil).

## 30 COMMITMENTS

### (a) Commitments for capital and property development expenditure

| | As at | |
|---|---|---|
| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
| Contracted but not provided for | | |
| – Land use rights | – | 117,710 |

### (b) Operating lease commitments

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

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

| | As at | |
|---|---|---|
| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
| Not later than 1 year | 43,504 | 48,607 |
| Later than 1 year and not later than 5 years | 129,418 | 169,442 |
| Later than 5 years | 51,167 | 88,012 |
| | 224,089 | 306,061 |

## 31 FUTURE OPERATING LEASE RENTALS RECEIVABLE

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

| | As at | |
|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| Not later than 1 year | **5,129** | 7,238 |
| Later than 1 year and not later than 5 years | **11,843** | 14,794 |
| Later than 5 years | **—** | 25 |
| | **16,972** | 22,057 |

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

## 32 TRANSACTION WITH NON-CONTROLLING INTERESTS

### Acquisition of additional interest in a subsidiary without change of control

In March 2013, the Group acquired the remaining 30% equity interest in Huiyin Real Estate Co., Ltd. ("Huyin Real Estate") which it already holds an equity interest of 70% for a consideration of RMB15,000,000. The carrying amount of the non-controlling interests in Huyin Real Estate on the date of acquisition was RMB12,772,000. The Group recognised a decrease in non-controlling interests of RMB12,772,000 and a decrease in equity attributable to owners of the Company of RMB2,228,000 which represented the excess of consideration paid. The effect of change in the ownership interest of Huiyin Real Estate on the equity attributable to owners of the Company is summarised as follows:

| | RMB'000 |
|---|---|
| Carrying amount of non-controlling interests acquired | 12,772 |
| Consideration paid to non-controlling interests | (15,000) |
| Excess of consideration paid recognised within equity | (2,228) |

There was no transaction with non-controlling interests in 2012.

## 33 RELATED PARTY TRANSACTIONS

### (a) Name and relationship with related parties

| 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:

| | Six months ended 30 June | |
|---|---|---|
| | 2013 | 2012 |
| | RMB'000 | RMB'000 |
| **– Rental expenses to a related party** | | |
| Mr. Cao Kuanping | 1,680 | 405 |
| **– Directors' emoluments** | | |
| Salaries, bonus and other welfares | 3,921 | 4,565 |

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.

## 33 RELATED PARTY TRANSACTIONS *(continued)*

### (c) Key management compensation

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Salaries and other allowances | **1,712** | 1,688 |
| Social security costs | **115** | 114 |
| Pre-IPO Option Scheme expenses | **530** | 2,682 |
| Other benefits | **1,429** | — |
| | **3,786** | 4,484 |

### (d) Balances with related parties

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

| | As at | |
|---|---|---|
| | **30 June** | 31 December |
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Balances due to related parties:** | | |
| Accruals and other payables (Note 18) | | |
| – Mr. Cao Kuanping | **463** | 463 |
| Salaries and welfares payable to directors | | |
| – Mr. Cao Kuanping | **—** | 99 |
| – Mr. Mao Shanxin | **—** | 84 |
| – Mr. Mo Chihe | **—** | 54 |
| – Mr. Wang Zhijin | **—** | 129 |
| – Mr. Lu Chaolin | **—** | 93 |
| | **—** | 459 |
| | **463** | 922 |

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.

## 34 CONTINGENCIES

In respect of the acquisition of the business of Xingfushu through Huainan Four Seas on 1 November 2010 (Note 21), 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.